KOMERCIJALNA BANKA AD BEOGRAD

REPORT

ON THE BANK OPERATION IN THE SECOND QUARTER OF 2012

Belgrade, July 2012

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1. PRESENTATION OF BASIC OPERATION INDICATORS IN THE PERIOD BETWEEN 31.12.2011 AND 30.06.2012

1.1. Bank's Operation Indicators

(In 000 RSD)

DESCRIPTION	30.06.12	31.05.12	30.04.12	31.03.12	31.12.11
BALANCE SHEET ASSETS	**302.669.760**	**303.307.771**	**295.641.292**	**288.778.797**	**275.488.718**
Increase (in %)	*9,87%*	*10,10%*	*7,32%*	*4,82%*	*7,7%*
CLIENTS' LOANS AND DEPOSITS	**178.256.043**	**181.715.231**	**173.914.850**	**166.847.320**	**155.719.207**
Increase (in %)	*14,47%*	*16,69%*	*11,68%*	*7,15%*	*3,4%*
Share of NPL in loans (in %)	*11,04%*	*10,83%*	*10,77%*	*10,66%*	*10,7%*
Retail loans and deposits*	54.129.216	53.509.257	51.177.179	50.898.047	48.555.491
Legal entities' loans and deposits	124.126.827	128.205.974	122.737.671	115.949.274	107.163.716
CALLABLE DEPOSITS AND LOANS (without FX r.r.)	**-**	**1.100.000**	**1.600.000**	**11.000.000**	**11.500.000**
TOTAL RESERVE REQUIREMENT	**60.266.666**	**56.768.224**	**54.344.248**	**55.928.880**	52.753.142
CLIENT DEPOSITS	**226.090.169**	**228.926.734**	**221.544.333**	**217.173.310**	**206.123.280**
Increase (in %)	*9,69%*	*11,06%*	*7,48%*	*5,36%*	*3,5%*
Retail client deposits	**161.360.068**	**161.793.470**	**155.815.183**	**153.340.688**	143.061.647
Legal entities' deposits	**64.730.102**	**67.133.264**	**65.729.150**	**63.832.623**	63.061.633
PROFIT FROM REGULAR OPERATION	**2.274.424**	**1.853.348**	**1.617.548**	**1.149.533**	**3.952.066**
*Increase / decrease (in %***)*	*13,33%*	*10,24%*	*31,43%*	*28,42%*	*41,6%*
PROFITABILITY PARAMETERS:					
ROA – profit** / average balance sheet assets	**1,55%**	**1,53%**	**1,69%**	**1,61%**	**1,53%**
ROE – profit** / average total capital	**10,01%**	**9,82%**	**10,74%**	**10,21%**	**9,21%**
ROE – profit** / average share capital	**15,98%**	**15,63%**	**17,05%**	**16,16%**	**13,89%**
INCOME BASED PROFIT	**5.060.711**	**4.112.360**	**3.395.171**	**2.528.418**	**9.853.368**
*Increase (in %***)*	*9,77%*	*11,06%*	*18,77%*	*18,77%*	*32,5%*
FEE AND COMMISSION BASED PROFIT	**2.126.915**	**1.731.154**	**1.358.198**	**1.000.793**	**4.423.399**
*Increase / decrease (in %***)*	*0,71%*	*0,01%*	*-1,29%*	*-0,90%*	*13,6*
NUMBER OF EMPLOYEES	**3.005**	**2.999**	**2.994**	**3.023**	**3.022**
Increase / decrease (in %)	**-0,56%**	**-0,76%**	**-0,93%**	**0,03%**	*-2,5*
Assets per employee in 000 RSD	100.722	101.136	98.745	95.527	91.161
Assets per employee in 000 EUR	870	867	882	858	871
OPERATING EXPENSES	**4.665.388**	**3.880.102**	**3.068.831**	**2.345.543**	**8.995.578**
*Increase (in %***)*	*11,76%*	*11,94%*	*10,85%*	*13,13%*	*6,30%*
CIR = OPEX / net interests and fees	**64,91%**	**66,40%**	**64,56%**	**66,50%**	**63,0%**
CAPITAL ADEQUACY	**15,50**	**15,55%**	**16.11%**	**16,11%**	**17,25%**
FX RISK INDICATOR	**0,42**	**1,50**	**3,60**	**0,92%**	**1,68%**
LIQUIDITY INDICATOR	**2,76**	**2,46**	**2,19**	**3,14**	**2,91**
OPERATING CASH FLOWS (In 000 RSD)	**2.210.258**	**1.833.698**	**1.464.383**	**1.269.762**	**6.136.179**

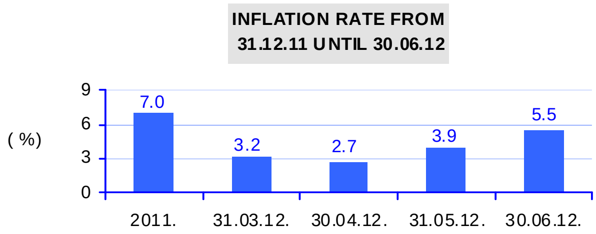
** Retail loans and deposits also include the loans to micro economic entities – active companies registered with the Businesses Registers Agency (APR) of the Republic of Serbia and other companies duly registered with the competent authority, in private ownership which, according to the latest official report have realized total annual revenues of € 500/th., converted at the NBS mid-exchange rate as at the date of the Report preparation, where the Bank exposure, including the exposure in the case of related persons and the application filed, is equal or less than € 100/th;*

***Profit before tax,*

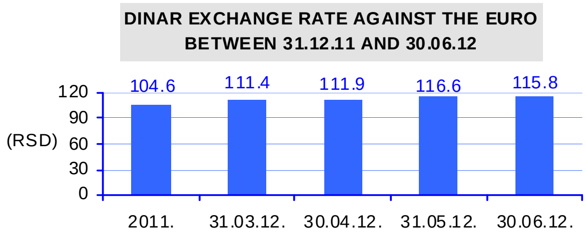
**** in % against the same period of the preceding year.*

2. MACROECONOMIC CONDITIONS FOR DOING BUSINESS IN THE PERIOD BETWEEN 31.12.11 AND 30.06.2012

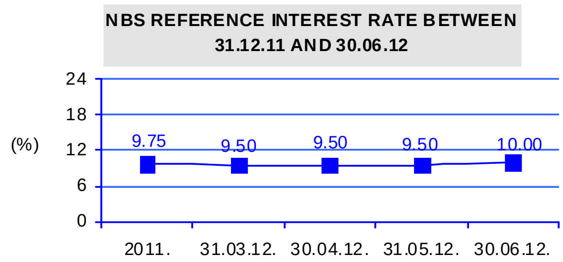
Year-over-year rate of inflation (consumer retail price rise) registered increase in the first semester of 2012. Year-over-year inflation in June (5.5%) approached the upper limit of the permitted departure from the target for this month, determined by the NBS Memorandum on Setting Inflation Targets (5.7%).



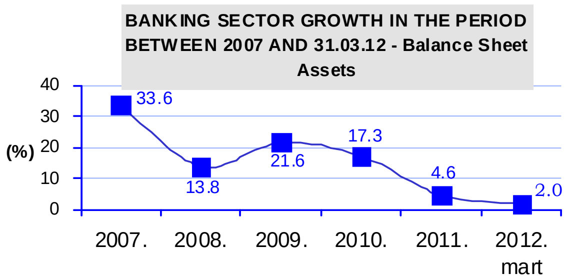
In the first half of this year, despite the significant intervention by the NBS by the sale of EUROs on the Interbank FX Market (€1,288.8 million), the dinar depreciation initiated at the close of the preceding year continued. The dinar was continuously losing value, and at the close of June 2012 the depreciation rate of the dinar against the EURO was 10.7% from the beginning of the year.



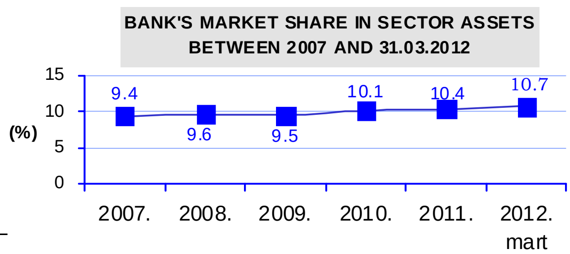
In order to mitigate the inflationary pressures, particularly pronounced in the second quarter, the NBS raised the reference rate by 0.50 percentage points on 07 June 2012. Apart from mitigating the inflationary expectations, the fixed rate (10.0%) needs to contribute to macroeconomic stabilization.



The banking sector in the Republic of Serbia registered a significantly smaller growth in 2012 (2,0%) relative to the five-year average of previous years (18.2%) .



During 2012, the Bank slightly increased the share in total balance sheet assets of the banking sector.
In the period under review, the Bank increased the market share in the banking sector's assets by 1.3 percentage points.



3. BASIC INDICATORS OF THE BANK OPERATION IN THE PERIOD BETWEEN 31.12.2011 AND 30.06.2012

(IN 000 RSD)

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Increase (in %)	*9,87%*	*10,10%*	*7,32%*	*4,82%*	*7,7%*
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Increase (in %)	*14,47%*	*16,69%*	*11,68%*	*7,15%*	*3,4%*
NPL share in loans (in %)	*11,04%*	*10,83%*	*10,77%*	*10,66%*	*10,7%*
Retail client loans and deposits*	54.129.216	53.509.257	51.177.179	50.898.047	48.555.491
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Increase (in %)	*9,69%*	*11,06%*	*7,48%*	*5,36%*	*3,5%*
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Legal entities' deposits	**64.730.102**	**67.133.264**	**65.729.150**	**63.832.623**	63.061.633

As at 30.06.2012, the Bank's balance sheet assets equaled 302,669.8 million dinars, and increased by 27,181.0 million dinars or by 9.9% against the end of the preceding year.

Off-balance sheet assets went up by 5.7% in 2012 and at the close of the first semester of 2012 amounted to 194,030.4 million dinars.

In the first half of 2012, the Bank registered a growth in client loans of 22,536.8 million dinars, or of 14.5%, maintaining a relatively low level of non-performing loans in total loans (as at 30.06.2012 – 11.04%), and registered a growth in client deposits of 9.7%, which has enabled the rise of the Bank's market share in the banking sector.

DESCRIPTION	30.06.12	31.05.12	30.04.12	31.03.12	31.12.11
NUMBER OF EMPLOYEES	**3.005**	**2.999**	**2.994**	**3.023**	**3.022**
Assets per employee in 000 RSD	100.722	101.136	98.745	95.527	91.161
Assets per employee in 000 EUR	870	867	882	858	871

4. BALANCE SHEET AS AT 30.06.2012

4.1. Bank assets as at 30 June 2012

(In 000 RSD)

NO.	BALANCE SHEET ITEM DESCRIPTION	30.06.2012	31.12.2011	INDEXES	% SHARE AS AT 30.06.2012
1	2	3	4	5=(3:4)	6
	ASSETS				
1.	Cash and cash equivalents	20.826.668	17.228.970	120,88	6,88
2.	Callable deposits and loans	43.003.040	55.260.711	77,82	14,21
3.	Interest, fee and sale receivables	1.619.984	1.187.573	136,41	0,54
4.	Loans and deposits	178.256.043	155.719.207	114,47	58,89
5.	securities (excluding own securities)	37.390.047	25.637.972	145,84	12,35
6.	Stakes	5.881.850	5.823.583	101,00	1,94
7.	Other placements	3.540.485	2.187.533	161,85	1,17
8.	Intangible investments	562.448	555.415	101,27	0,19
9.	Fixed assets and investment real property	7.439.645	7.530.271	98,80	2,46
10.	Non-current assets intended for sale	101.040	101.040	100,00	0,03
11.	Deferred tax assets	29.870	-	-	0,01
12.	Other assets	4.018.640	4.256.444	94,41	1,33
	TOTAL ASSETS (from 1 to 12)	**302.669.760**	**275.488.718**	**109,87**	**100,00**

At the close of the first half of 2012, the Bank's balance sheet assets increased by 27,181.0 million dinars or by 9.9%. The amount of client loans rose by 22,536.8 million dinars, or by 14.5%. As at 30 June 2012, total placements to clients were at the level of 178,256.0 million dinars, which accounts for 58.9% of total balance sheet assets.

During the first half of 2012, the cash and cash equivalents item registered a growth of 20.9% due to the growth of assets in the giro account (larger allocation of the dinar portion of the FX reserve requirement).

Apart from loans and deposits, a significant increase in the reporting period of the year in course was recorded in the securities item – the growth equal to 11,752.1 million dinars or 45.8%.
The callable deposit and loan item registered a fall of 12,257.7 million dinars, or 22.2% , mainly resulting form the withdrawal of assets from the NBS repo placements.

4.2. Bank liabilities as at 30 June 2012

(In 000 RSD)

NO.	BALANCE SHEET ITEM DESCRIPTION	30.06.2012	31.12.2011	INDEXES	% SHARE AS AT 30.06.2012
1	2	3	4	5= (3:4)	6
I	**LIABILITIES**				
1.	Transaction deposits	29, 681, 314	31, 456, 575	94.36	9.81
2.	Other deposits	196, 408, 855	174, 666, 705	112.45	64.89
3.	Loan received	2, 525, 916	1, 603, 761	157.50	0.83
4.	Securities related liability	-	-	-	-
5.	Interest and fee related liability	193, 963	205, 079	94.58	0.06
6.	Provisions	1, 659, 952	2, 135, 436	77.73	0.55
7.	Tax related liability	51, 350	39, 737	129.22	0.02
8.	Liability from profit	88, 040	172, 197	51.13	0.03
9.	liability – for discontinued assets	-	-	-	0.00
10.	Deferred tax liability	46, 906	17, 036	275.33	0.02
11.	Other liabilities	25, 754, 236	20, 916, 626	123.13	8.51
12	**TOTAL LIABILITIES (from 1 to 11))**	**256, 410, 532**	**231, 213, 152**	**110.90**	**84.72**
	CAPITAL				
13.	Share capital and issue premium	28, 462, 553	28, 462, 553	100.00	9.40
14.	Reserves from profit	14, 785, 440	11, 635, 440	127.07	4.89
15.	Revaluation reserves	760, 666	689, 620	110.30	0.25
16.	Unrealized losses based on securities available for sale	-77, 483	-63, 940	121.18	-0.03
17.	Profit	2, 328, 052	3, 551, 893	65.54	0.77
18	**TOTAL CAPITAL (from 13 to 17)**	**46, 259, 228**	**44, 275, 566**	**104.48**	**15.28**
19	**TOTAL LIABILITIES (12+18)**	**302, 669, 760**	**275, 488, 718**	**109.87**	**100.00**
II	**COMMISSION TRANSACTIONS AND OFF-BALANCE SHEET ITEMS**	**194, 030, 418**	**183, 524, 897**	**105.72**	

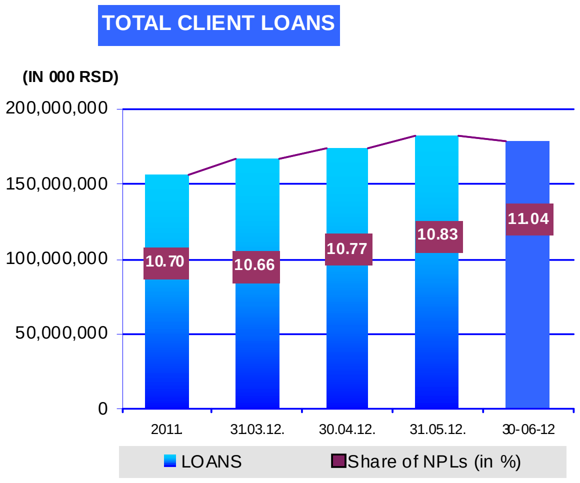
At the close of the first semester of 2012, liabilities totaled 256,410.5 million dinars and accounted for 84.7% of total liabilities (on 31.12.2011: 83.9%). At the same time, total capital worth 46,259.2 million dinars had a share of 15.3% in total liabilities (on 31.12.2011: 16,1%).

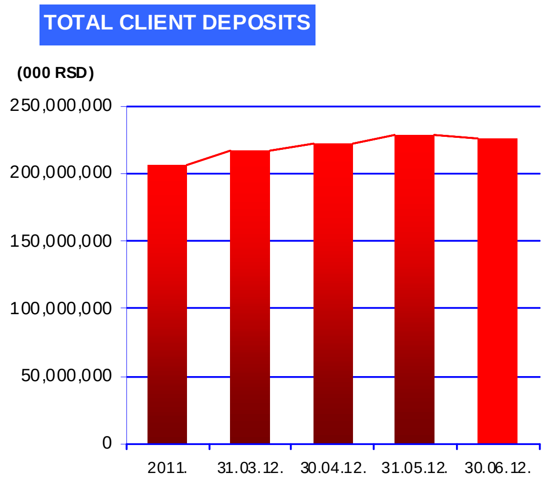
Total liabilities increased against the end of the preceding year by 25,197.4 million dinars or by 10.9%, while total capital rose by 1,983.7 million dinars or 4.5%.

Besides other deposits that rose in the reporting period by 21,742.2 million dinars or by 12.4%, a significant increase relative to the close of the preceding year (4,837.6 million dinars or 23.1%) was registered in the other liabilities balance sheet item. Among other liabilities, the largest share was that of liabilities in foreign currency – credit lines (13.230,5 million dinars) and the subordinated loan (5.791,0 million dinars) which was disbursed at the end of the preceding year for the purpose of increasing the regulatory capital.

In the structure of balance sheet liabilities, client deposits (transaction and other deposits) amounted to 226,090.2 million dinars, which accounts for 74.7% of total balance sheet liabilities, showing an increase against the beginning of the year of 19,966.9 million dinars or 9.7%.

4.3. Client Loans and Client Deposits as at 30 June 2012





The most significant assets category, loans and deposits, registered an absolute increase of 22,536.8 million dinars (+14.5%), as well as the increase of the share in total assets from 56.5% to the level of 58.9%. The rate of credit growth is above the rate of the dinar depreciation, which indicates that in the first half of this year the Bank achieved a real growth in loans and deposits.
At the end of the first half of 2012, Bank deposits totaled 226,090.2 million dinars, and represented 74.7% of total Bank liabilities (December 2011: 74.8%). Relative to the end of the preceding year, total Bank deposits rose by 19,966.9 million dinars (9.7%), of which other deposits increased by 21,742.2 million dinars or by 12.4%, while transaction deposits dropped by 1,775.3 million dinars or by 5.6%. The mentioned growth of other deposits (about 74%) mainly resulted from the dinar depreciation.
The growth of other deposits in the first semester of 2012 was primarily the result on increased FX savings of retail clients (18,448.5 million RSD).

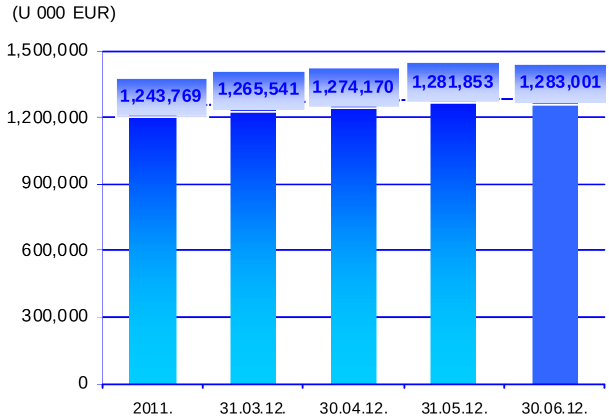
(IN 000 RSD)

NO.	DESCRIPTION	BALANCE AS AT 30.06.2012	BALANCE AS AT 31.12.2011	Index (2:3)*100
	1	2	3	4
I	**LOANS TO CLIENTS (I + II + III)**	**178.256.043**	**155.719.207**	**114,47**
1.	Corporate	114.391.169	98.486.288	116,15
2.	Retail	54.129.216	48.555.491	111,48
3.	Banks and financial organizations	9.735.658	8.677.427	112,20
II	**CLIENTS' DEPOSITS (I + II + III)**	**226.090.169**	**206.123.280**	**109,69**
1.	Corporate	56.783.272	56.243.065	100,96
2.	Retail	161.360.068	143.061.647	112,79
3.	Banks and financial organizations	7.946.830	6.818.567	116,55

NOTE: Deposits include transaction deposits.

Total loans to Bank clients as at 30 June 2012 were at the level of 178,256.0 million dinars, and registered a rise against the end of the preceding year of 22,536.9 million dinars or by 14.5%. The level of loans and deposits at the end of the first half of 2012 was significantly influenced by placements to corporate clients which at the close of this period reached a figure of 114,391.2 million dinars.

FX SAVINGS IN THE PERIOD BETWEEN 31.12.11 AND 30.06.2012



Enjoying reputation as a safe and stable banks on the Serbian market, in the period under review the Bank managed to increase FX saving deposits by EUR 39.2 million or by 3.2%.

In spite of the serious economic crisis, FX savings rose in the first half of 2012 and reached a figure of EUR 1,283.0 million.

The trust on the part of savers has enabled the Bank to keep the No. 1 position in the banking sector of Serbia in terms of the volume of raised FX savings, image and recognizability.

4.4. Commission deals and off-balance sheet items in 2012

(In 000 RSD)

NO.	DESCRIPTION	BALANCE AS AT 30.06.12	BALANCE AS AT 31.12.2011	Index (2:3)*100
	1	2	3	4
I	**DEALS IN THE NAME AND FOR ACCOUNT (commission deals)**	**4.811.805**	**4.332.764**	**111,1**
II	**CONTINGENT LIABILITIES**	**37.937.704**	**32.402.457**	**117,1**
1.	Payable guarantees	8.156.912	7.145.564	114,2
2.	Performance bonds	8.172.667	6.812.395	120,0
3.	Bill guarantees and bill acceptance	68.647	77.853	88,2
4.	Unused assumed liabilities	19.973.613	16.324.350	122,4
5.	Other recoverable off-balance sheet items	431.154	1.328.990	32,4
6.	Uncovered letters of credit	1.134.710	713.306	159,1
III	**CLASSIFIABLE OFF-BALANCE SHEET ITEMS**	**151.280.909**	**146.789.676**	**103,1**
1.	FX savings bonds	8.148.089	7.843.967	103,9
2.	Securities in custody	135.290.688	127.962.425	105,7
3.	Other off-balance sheet items	7.842.132	10.983.284	71,4
	TOTAL (I +II+III)	**194.030.418**	**183.524.897**	**105,7**

As at 30 June 2012, contingent off-balance sheet liabilities totaled 37,937.7 million dinars – increase by 5,535.2 million dinars or by 17.1% against the end of the preceding year, resulting mainly from the increase in issued guarantees and in assumed irrevocable liabilities.

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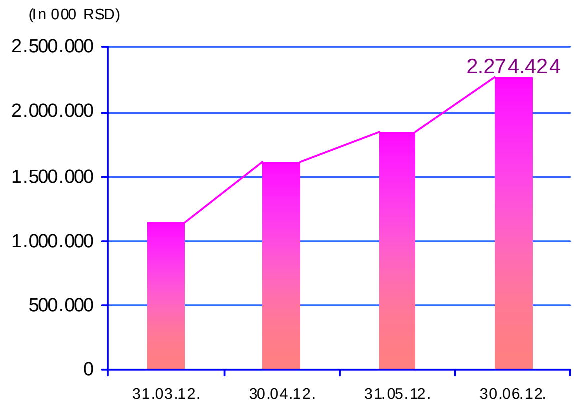
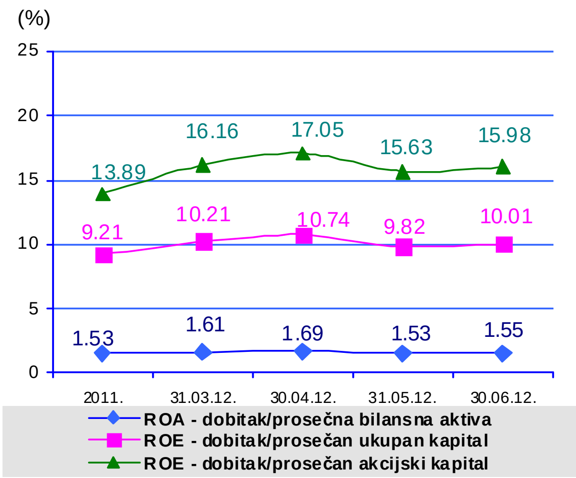
Increase/ decrease (in %)*	*13,33%*	*10,24%*	*31,43%*	*28,42%*	*41,6%*
PROFITABILITY INDICATORS:					
ROA - profit / average balance sheet assets	**1,55%**	**1,53%**	**1,69%**	**1,61%**	**1,53%**
ROE - profit / average total capital	**10,01%**	**9,82%**	**10,74%**	**10,21%**	**9,21%**
ROE - profit / average share capital	**15,98%**	**15,63%**	**17,05%**	**16,16%**	**13,89%**
INTEREST BASED PROFIT	**5.060.711**	**4.112.360**	**3.395.171**	**2.528.418**	**9.853.368**
Increase (in %)*	*9,77%*	*11,06%*	*18,77%*	**18,77%**	**32,5%**
FEE AND COMMISSION BASED PROFIT	**2.126.915**	**1.731.154**	**1.358.198**	**1.000.793**	**4.423.399**
Increase / decrease (in %)*	*0,71%*	*0,01%*	*-1,29%*	**-0,90%**	*13,6*

* in % against the same period of the preceding year

PROFIT FROM REGULAR OPERATION



PROFITABILITY INDICATOR



In spite of the negative impact of the global financial crisis, the Bank achieved in the first half of this year against the same period of 2011 a significant growth of profitability (13.3%). The Bank's profit realized between 01 January and 30 June of 2012 is 2,274.4 million dinars, and represents the increase of 267.6 million dinars against the same period of last year. Such a significant increase of the profit in the first semester of 2012 provided a return on total capital of 10.01%, or a return on share capital of 15.98%.

The major contributor to the profit growth in the first half of 2012 was net increase of interest income (9,8%) and other revenues mainly generated by leasing the real property for business purposes and by selling the securities available for sale.

The keeping of almost the same number of employees and simultaneous increase of the volume of operation improved the ratio of assets and the number of Bank staff. In the first semester of 2012, assets per employee in the Bank rose from 91.2 million dinars at the end of 2011 to 100.7 million dinars as at 30 June 2012.

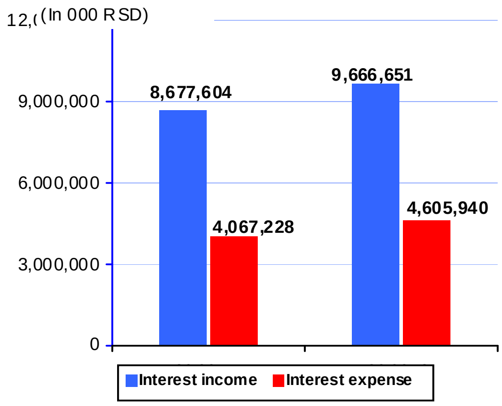
Due to the increase of the basic operating cost segment, the Cost Income Ratio (CIR) rose from 63.0% at 2011-end to 64.9% as at 30 June 2012 (growth of 1.9 percentage points).

5. INCOME STATEMENT FOR THE PERIOD FROM 01.01 TO 30.06.2012

(In 000 RSD)

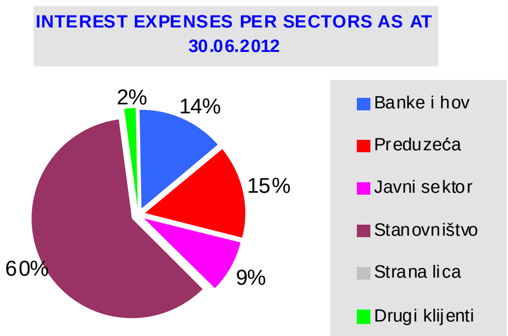
NO.	DESCRIPTION OF INCOME STATEMENT ITEM	30.06.2012	30.06.2011	INDEXES (3:4)
	2	3	4	5
	INCOME AND EXPENSES OF REGULAR COURSE OF BUSINESS			
1.1.	Interest income	9.666.651	8.677.604	111,40
1.2.	Interest expense	4.605.940	4.067.228	113,25
1.	**Interest profit**	**5.060.711**	**4.610.376**	**109,77**
2.1.	Fee and commission income	2.473.767	2.382.595	103,83
2.2.	Fee and commission expense	346.852	270.714	128,12
2.	**Fee and provision profit**	**2.126.915**	**2.111.881**	**100,71**
3.	Net profit / loss under sale of securities at fair value through income statement	-1.104	-4.064	27,17
4.	Net profit / loss under sale of securities that are available for sale	82.069	1.254	6.544,58
5.	Net profit / loss under sale of stakes (participations)	-	-	-
6.	Net profit / loss under sale of other placements	-	-	-
7.	Net profit / loss from exchange differentials and change in the value of property and liabilities	42.032	-103.318	-40,68
8.	Income from dividends and stakes (participations)	1.306	7.081	18,44
9.	Other operating income	119.918	95.166	126,01
10.	Net income / expense under indirect write-off of placements and provisions	-287.262	-530.566	54,14
11	Costs of wages, wage compensations and other personal expenses	2.014.605	1.826.729	110,28
12.	Depreciation costs	369.461	313.603	117,81
13.	Operating and other business expenses	2.486.095	2.040.651	121,83
14.	**RESULT OF THE PERIOD – PROFIT BEFORE TAX (from 1 to 13)**	**2.274.424**	**2.006.826**	**113,33**
15.	Profit tax	-	-	-
16.	Profit from created deferred tax assets and decrease of deferred tax liabilities	-	-	-
17.	Loss from decrease of deferred tax assets and creation of deferred tax liabilities	-	-	-
18.	**PROFIT (from 14 to 17)**	**2.274.424**	**2.006.826**	**113,33**

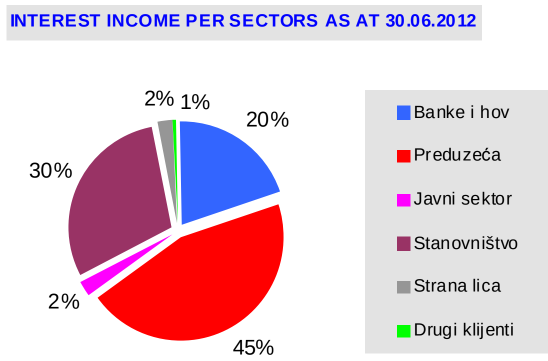
5.1. Interest income and expense



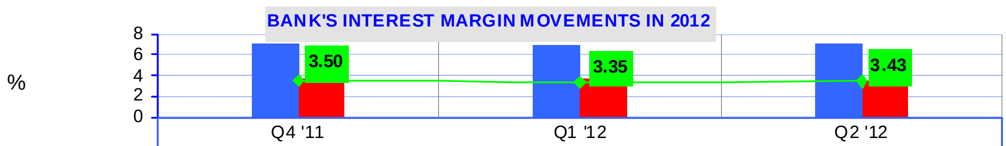
Interest income for the first half of 2012 was 5,060.7 million dinars, and represents an increase of 9.8% against the same period of last year.

Relative to the same period of last year, lending interest income rose by 989.0 million dinars or by 11.4%, while deposit interest expenses went up by 538.7 million dinars or by 13.2%.





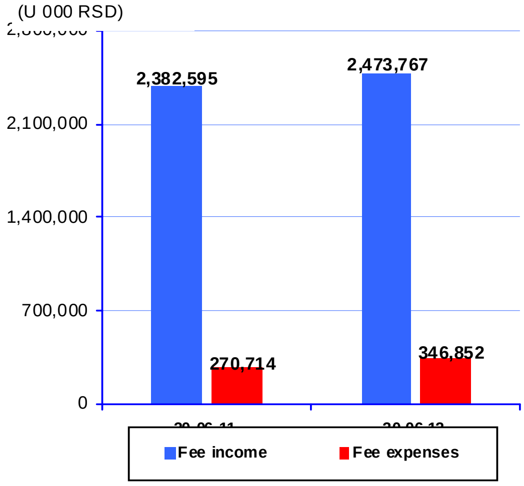
Within interest income, the largest share pertains to interest income based on approved corporate loans (4,318.1 million dinars or 44.7%), while in total interest expenses the largest share relates to interest on retail client deposits (2,794.9 million dinars or 60.7%), which mostly relates FX saving deposits of retail clients.



	Q4 '11	Q1 '12	Q2 '12
Average lending interest rate	7.14	6.94	7.00
Average deposit nterest rate	3.64	3.59	3.57
Average interest margin	3.50	3.35	3.43

Average lending rate in the second quarter of 2012 was 7.0%, and average deposit rate 3.57%, so that the Bank's average interest margin was 3.43% in the second quarter of 2012.

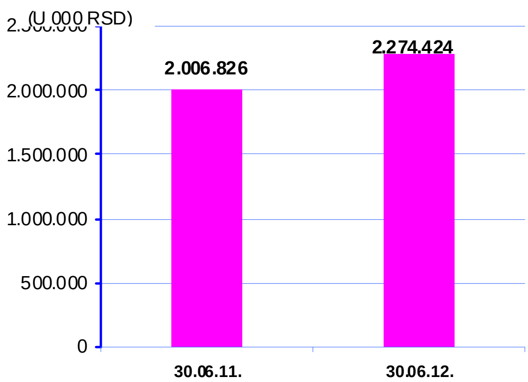
5.2. Fee income and expenses



Fee and commission income in the first semester of 2012 was 2,126.9 million dinars and was insignificantly higher against the same period of the last year (0,7%).

If compared with the same period of 2011, income from fees and commissions for banking services increased by 91.2 million dinars or by 3.8%, whereas fee and commission expenses were larger by 76.1 million dinars or by 28.1%.

5.3. Realized operating profit



In spite of adverse and unforeseeable macroeconomic conditions for doing business and recession in international and domestic economy, in the period between 01 January and 30 June 2012 the Bank realized operating profit of 2,274.4 million dinars, which represents an increase of 13.3% against the same period of the preceding year.

Such an increase in realized operating profit enabled the Bank to achieve in the first half of 2012 a return on total capital of 10.01%, or a return on share capital of 15.98%.

OPERATING INDICATORS PRESCRIBED BY THE LAW ON BANKS

NO.	DESCRIPTION	PRESCRIBED	30.06.12	31.03.12	31.12.11
1.	Capital adequacy ratio (net capital / credit risk + operating risks + open FX position)	MIN. 12%	15.50	16.11%	17.25%
2.	Investment indicators in entities that are not in the financial sector and in fixed assets	MAX. 60%	27.27	27.93%	27.98%
3.	Large Bank exposure indicator	MAX. 400%	166.19	190.13%	109.51%
4.	FX risk indicator	MAX. 20%	0.42	0.92%	1.68%
5.	Liquidity indicator	MIN. 1%	2.76	3.14%	2.91%

Description of operations with entities related with the Bank

As at 30 June 2012, the entities related with the Bank are:

1. Komercijalna banka a.d. Budva, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia an Herzegovina,
3. Kombank Invest a.d. Beograd
4. three legal entities and a considerable number of individuals, according to the provisions of Article 2 of the Law on Banks in the section specifying the concept of “parties related with a bank“.

Total exposure to entities related with the Bank as at 30 June 2012 was 710,885 thousand dinars, which figure represented 2.60% relative to the capital of 27,309,917 thousand dinars (maximum value of total placements to all parties related with the Bank is 20% of capital according to the Law on Banks).
The bulk of the exposure to persons related with the Bank as at 30 June 2012, the amount of RSD 681,587 thousand or 2.50% of the Bank’s capital, relates to placements to natural persons (individuals) who are related with the Bank.
In accordance with Article 37 of the Law on Banks, the persons related with the Bank were not approved the conditions more favorable than those approved to other persons who are not related with the Bank or who are not the Bank employees.

6. BASIC DATA ABOUT THE 2012 BUSINESS PLAN IMPLEMENTATION

Implementation of the 2012 Strategy and Business Plan for the first semester of 2012 was taking place in significantly changed macroeconomic conditions for doing business, the most prominent of which were:

- contrary to the projections, a year-over-year drop in GDP of 1.3 % was registered in the first quarter of 2012,
- the dinar movements were contrary to the projections and expectations (planned dinar/EUR exchange rate: EUR 1 = 105,88 dinars, and realized: EUR 1 = 115.82 dinars),
- Inflation rate (year-over-year rate 5.5% - June 2012 / June 2011) continued to rise and almost reached the upper limit of the permitted departure for June of this year (5.7%),

In addition, operation of the banks in the first half of 2012 was under the strong impact of the Euro-related crisis in the Euro zone, the freeze of the arrangement with the IMF, restraint on the part of foreign investors to invest in Serbia, smaller credit demand, increase of the credit risk because of the recession and unemployment in the enterprise sector, full implementation of Basel II standards, and the Law on Consumer Protection.

6.1. Planned and Achieved Balance Sheet Values in the First Half of 2012

Total balance sheet assets of the Bank at the close of the first half of 2012 amounted to 302,669.8 million dinars and were against the planned value for the same period of 2012 larger by 23,683.8 million dinars, or 8.5%. Significant dissentions between the realized and planned figures were registered on the item of callable deposits and credits and placements in securities, while dissentions in other items are the consequence of the dinar exchange rate movements which were contrary to the projections and expectations (planned dinar/EUR exchange rate: EUR 1 = 105,88 dinars, and realized: EUR 1 = 115.82 dinars).
Registered growth of balance sheet assets enabled the Bank to increase its market share from 10.4% in 2011 to 10.7% at the end of the first quarter of this year, which is above the planned market share (10.4%).
Realized and planned assets and liabilities items in the balance sheet as at 30 June 2012 had the following values:

(in 000 RSD)

	ASSETS ITEM	PLAN 30.06.2012	Realized 30.06.2012	Plan realization in u %
1	2			5=4/3
	ASSETS			
1.	Cash and cash equivalents and callable deposits and loans	16.101.485	20.826.668	129,35
2.	**Loans and deposits (2.1+2.2+2.3)**	**159.523.103**	**178.256.043**	111,74
2.1.	Corporate clients	103.146.644	114.391.169	110,90
2.2.	Retail clients	49.537.746	54.129.216	109,27
2.3.	Banks	6.838.714	9.735.658	142,36
3.	Other assets	103.361.409	103.587.049	100,22
4.3	**TOTAL ASSETS (1+2+3)**	**278.985.997**	**302.669.760**	108,49
	LIABILITIES			
1.	**Deposits**	204.004.843	226.090.169	110,83
1.1.	Corporate clients	52.902.736	56.783.272	107,34
1.2.	Retail clients	144.793.824	161.360.068	111,44
1.3.	Banks and financial organizations	6.308.284	7.946.830	125,97
2.	Other obligations	28.500.725	30.320.363	106,38
3.	**Total obligations (1+2)**	**232.505.568**	**256.410.532**	110,28
4.	**Total capital**	**46.480.429**	**46.259.228**	99,52
5.	**TOTAL LIABILITIES (3+4)**	**278.985.997**	**302.669.760**	108,49

6.2. Planned and Realized Values of Income Statement for the Period Between 01.01-30.06.2012

(in 000 RSD)

	ITEM	PLAN 01.01-30.06.12	REALIZED 01.01-30.06.12	Plan realization in %
1	2	3	4	5=4/3
1.1.	Interest income	9.472.500	9.666.651	102,05
1.2.	Interest expense	-4.394.000	-4.605.940	104,82
1.	**Interest based profit (1.1.-1.2)**	**5.078.500**	**5.060.711**	**99,65**
2.1.	Fee and commission income	2.698.646	2.473.767	91,67
2.2.	Fee and commission expense	-312.000	-346.852	111,17
2.	**Fee and commission based profit (2.1. -2.2.)**	**2.386.646**	**2.126.915**	**89,12**
3.	Net of exchange differentials and value changes (FX clause)	50.000	42.033	84,07
4.	Other operating income	97.500	204.069	209,30
5.	Net expenses/income based on indirect write-off of placements and provisions	-584.500	-287.262	49,15
6.	Operating and other business expenses	-4.845.000	-4.872.042	100,56
7.	**PROFIT FROM ORDINARY OPERATION**	**2.183.146**	**2.274.424**	**104,18**

KOMERCIJALNA BANKA AD BEOGRAD

BALANCE SHEET

on 30.06.2012.

(in RSD thousand)

POSITION	ADP code	Amount	
		Current year ammount	Previous year ammount
1	2	3	4
ASSETS			
Cash and cash equivalents	**001**	20.826.668	17.228.970
Revocable deposits and loans	**002**	43.003.040	55.260.711
Revocables from interest, compensations, sale, change of derivatives fair value and other receivables	**003**	1.619.984	1.187.573
Loans, advances and deposits of clients	**004**	178.256.043	155.719.207
Securities (without own shares)	**005**	37.390.047	25.637.972
Shares (participation)	**006**	5.881.850	5.823.583
Other invesments	**007**	3.540.485	2.187.533
Intangible assets	**008**	562.448	555.415
Fixed assets and invested immovables	**009**	7.439.645	7.530.271
Permanent assets for sale and assets of businesses to be ceased	**010**	101.040	101.040
Deferred tax assets	**011**	29.870	-
Other assets	**012**	4.018.640	4.256.443
Losses above equity	**013**	-	-
TOTAL ASSETS (from 001 to 013)	**014**	302.669.760	275.488.718
LIABILITIES			
Transaction deposits	**101**	29.681.314	31.456.575
Other deposits	**102**	196.408.855	174.666.705
Received loans	**103**	2.525.916	1.603.761
Liabilities for issued securities	**104**	-	-
Liabilities for interest, compensations and change of derivatives fair value	**105**	193.963	205.079
Provisions	**106**	1.659.952	2.135.436
Liabilities for tax	**107**	51.350	39.737
Liabilities for profit	**108**	88.040	172.197
Liabilities from assets for sale and assets of businesses to be ceased	**109**	-	-
Deferred tax liabilities	**110**	46.906	17.036
Other liabilities	**111**	25.754.236	20.916.626
TOTAL LIABILITIES (from 101 to 111)	**112**	256.410.532	231.213.152
EQUITY			
Equity	**113**	28.462.553	28.462.553
Reserves from profit	**114**	14.785.440	11.635.440
Revaluation reserves	**115**	760.666	689.620
Unrealized losses from securities for sale	**116**	77.483	63.940
Profit	**117**	2.328.052	3.551.893
Loss up to equity	**118**	-	-
TOTAL EQUITY (from 113 to 115+117-116-118)	**119**	46.259.228	44.275.566
TOTAL LIABILITIES (112+119)	**120**	302.669.760	275.488.718
OFF-BALANCE SHEET ITEMS (from 122 to 126)	**121**	194.030.418	183.524.897
Transactions for and on behalf of third parties	**122**	4.811.805	4.332.764
Future obligation acceptance	**123**	40.444.696	36.215.842
Received warranties for liabilities	**124**	-	-
Derivatives	**125**	-	261.602
Other off-balance sheet items	**126**	148.773.917	142.714.689

PROFIT AND LOSS ACCOUNT

from 01.01.2012. to 30.06.2012.

(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
OPERATING INCOME AND EXPENSES					
Interest income	201	4.971.660	9.666.651	4.524.409	8.677.604
Interest expenses	202	2.439.367	4.605.940	2.042.884	4.067.228
Interest profit (201-202)	203	2.532.293	5.060.711	2.481.525	4.610.376
Interest losses (202-201)	204	-	-	-	-
Fees and compensations income	205	1.310.879	2.473.767	1.252.737	2.382.595
Fees and compensations expense	206	184.757	346.852	150.721	270.714
Fees and compensations profit (205-206)	207	1.126.122	2.126.915	1.102.016	2.111.881
Fees and compensations loss (206-205)	208	-	-	-	-
Net profit from sale of securities per fair value in Profit and loss account	209	607	-	-	-
Net loss from sale of securities per fair value in Profit and loss account	210	-	1.104	4.195	4.064
Net profit from sale of securities	211	3.923	82.069	-	1.254
Net loss from sale of securities	212	-	-	-	-
Net profit from sale of securities held to maturity	213	-	-	-	-
Net losses from sale of securities held to maturity	214	-	-	-	-
Net profit from sale of participation shares (participations)	215	-	-	-	-
Net losses from sale of participation shares (participations)	216	-	-	-	-
Net profit from sale of other investment	217	-	-	-	-
Net losses on sale of other investment	218	-	-	-	-
Net income from exchange rate changes	219	-	-	313.874	1.859.460
Net expenses from exchange rate changes	220	3.908.342	10.004.069	-	-
Income from dividends and participation	221	962	1.306	6.927	7.081
Other operating income	222	66.570	119.918	69.077	95.166
Net income from indirect write-off of advances and provisioning	223	-	-	-	-
Net expenses on indirect write-off of advances and provisioning	224	112.096	287.262	444.158	530.566
Saleries, Wages, and other personal indemnites	225	1.020.030	2.014.605	920.912	1.826.729
Depreciation costs	226	185.011	369.461	158.769	313.603
Other operating expenses	227	1.303.546	2.486.095	1.025.033	2.040.651
Income from change in value of assets and liabilities	228	5.874.360	13.137.349	6.977.215	7.854.953
Expenses on change in value of assets and liabilities	229	1.950.921	3.091.248	7.285.870	9.817.732
PROFIT FROM REGULAR OPERATIONS (203-204+207-208+209-210+211 -212+213-214+215-216+217-218+219-220+221 +222+223-224-225-226-227+228-229)	230	1.124.891	2.274.424	1.111.697	2.006.826
LOSSES FROM REGULAR OPERATIONS (204-203+208-207+210-209+212-211 +214-213+216-215+218-217+220-219-221 -222+224-223+225+226+227-228+229)	231	-	-	-	-
NET PROFIT OF BUSINESSES TO BE CEASED	232	-	-	-	-
NET LOSS OF BUSINESSES TO BE CEASED	233	-	-	-	-
RESULT FOR THE PERIOD - PROFIT BEFORE TAX (230-231+232-233)	234	1.124.891	2.274.424	1.111.697	2.006.826
RESULT FOR THE PERIOD - LOSSES BEFORE TAX (231-230+233-232)	235	-	-	-	-
Tax on profit	236				
Profit from created deferred tax assets and decrease of deferred tax liabilities	237				
Loss from decrease of deferred tax assets and creation of deferred tax liabilities	238				
PROFIT (234-235-236+237-238)	239	1.124.891	2.274.424	1.111.697	2.006.826
LOSSES (235-234+236+238-237)	240	-	-	-	-
Earnings per share (in dinars)	241				
Basic earnings per share (in dinars)	242				
Diluted earnings per share (in dinars)	243				

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

CASH FLOW STATEMENT

from 01.01.2012. to 30.06.2012.

(in RSD thousand)

POSITION	ADP code	Amount 01.01. - 30.06.2012.	01.01. - 30.06.2011.
1	2	3*	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflows from operating activities (from 302 to 305)	301	10.598.719	10.390.519
1. Inflows from interest	302	8.017.026	7.945.741
2. Inflows from allowances	303	2.477.758	2.389.453
3. Inflows from other operating income	304	102.629	48.244
4. Inflows from dividends and participation in profit	305	1.306	7.081
II. Cash outflows from operating activities (from 307 to 311)	306	8.388.461	7.307.097
5. Outflows from interest	307	3.366.196	3.243.057
6. Outflows from allowances	308	353.542	277.627
7. Outflows from gross salleries, wages and other personal indemnities	309	1.857.129	1.654.765
8. Outflows from taxes, contributions and other obligations from income	310	404.607	352.589
9. Outflows from other operating expenses	311	2.406.987	1.779.059
III. Net cash inflow from operating activities prior to increase or decrease in advances and deposits (301 minus 306)	312	2.210.258	3.083.422
IV. Net cash outflow from operating activities prior to increase or decrease in advances and deposits (306 minus 301)	313	-	-
V. Decrease in advances and increase in deposits withdrawn (from 315 to 317)	314	17.860.621	-
10. Decrease in loans and advances to banks and clients	315	168.147	-
11. Decrease in securities per fair value in profit and loss account, tradeable advances and short-term securities held to maturity	316	-	-
12. Increase in banks and clients deposits	317	17.692.474	-
VI. Increase in advances and decrease in deposits withdrawn (from 319 to 321)	318	570.993	12.274.601
13. Increase in loans and advances to banks and clients	319	-	5.572.647
14. Increase in securities per fair value in profit and loss account, tradeable advances and short-term securities held to maturity	320	570.993	2.567.719
15. Decrease in deposits from banks and clients	321	-	4.134.235
VII. Net cash inflow from operating activities before tax on profit (312 minus 313 plus 314 minus 318)	322	19.499.886	-
VIII. Net cash outflow from operating activities before tax on profit (313 plus 318 minus 312 minus 314)	323	-	9.191.179
16. Profit tax paid	324	377.690	176.195
17. Dividends paid	325	252.665	288.853
IX. Net cash inflow from operating activities (322 minus 323 minus 324 minus 325)	326	18.869.531	-
X. Net cash outflow from operating activities (323 minus 322 plus 324 plus 325)	327	-	9.656.227
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash inflows from investing activities (from 329 to 333)	328	1.144.055	19.668
1. Inflows from long-term investment in securities	329	1.138.804	8.951
2. Inflows from sale of shares (participation)	330	-	-
3. Inflows from sale of intangible and fixed assets	331	5.251	10.717
4. Inflows from sale of investment immovables	332	-	-
5. Other inflows from investing activities	333	-	-
II. Cash outflows from investing activities (from 335 to 339)	334	11.582.012	286.493
6. Outflows from investment in long-term securities	335	11.262.382	-
7. Outflows from purchase of shares (participation)	336	751	1.846
8. Outflows from purchase of sale of intangible and fixed assets	337	318.879	284.647
9. Outflows from purchase investment immovables	338	-	-
10.Other outflows from investing activities	339	-	-
III. Net cash inflow from investing activities (328 minus 334)	340	-	-
IV. Net cash outflow from investing activities (334 minus 328)	341	10.437.957	266.825
V. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (from 343 to 348)	342	5.170.193	2.660.899
1. Inflows from capital increase	343	-	-
2. Net cash inflows from subordinated obligations	344	558.970	-
3. Net cash inflows from loans received	345	4.611.223	2.660.899
4. Net inflows from securities	346	-	-
5. Net inflows from sale of own shares	347	-	-
6. Other inflows from financing activities	348	-	-
II. Cash outflows from financing activities (from 350 to 354)	349	-	-
7. Outflows from purchase of own shares	350	-	-
8. Net outflows from subordinated obligations	351	-	-
9. Net cash outflows from loans received	352	-	-
10. Net outflows from securities	353	-	-
11. Other outflows from financing activities	354	-	-
III. Net cash inflow from financing activities (342 minus 349)	355	5.170.193	2.660.899
IV. Net cash outflow from financing activities (349 minus 342)	356	-	-
G. TOTAL NET CASH INFLOWS (301 plus 314 plus 328 plus 342)	357	34.773.588	13.071.086
D. TOTAL NET CASH OUTFLOWS(306 plus 318 plus 324 plus 325 plus 334 plus 349)	358	21.171.821	20.333.239
DJ. NET INCREASE IN CASH (357 minus 358)	359	13.601.767	-
E. NET DECREASE IN CASH (358 minus 357)	360	-	7.262.153
Ж. CASH AT THE BEGINNING OF THE YEAR (Note: ___) (361, col. 3 = 001, col. 6)	361	17.228.970	20.724.645
Z. PROFIT ON EXCHANGE	362	7.664.355	5.479.578
I. LOSS ON EXCHANGE	363	17.668.424	3.620.117
J. CASH AT END-PERIOD (Note: ___) 359 minus 360 plus 361 plus 362 minus 363) (364, col. 3 = 001, col. 5 and 364, col. 4 = 001, col. 6) (364, col. 4 = 361, col. 3)	364	20.826.668	15.321.953

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

CAPITAL CHANGES STATEMENT

from 01.01.2012. to 30.06.2012.

(in RSD thousand)

DESCRIPTION	ADP	Share capital (acc. 800)	ADP	Other capital (acc. 801)	ADP	Subscribed share capital unpaid (acc. 803)	ADP	Share Premium (acc. 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82, except for acc.823)	ADP	Profit (group of accounts 83)	ADP	Losses up to equity (acc. 840, 841)	ADP	Own shares (acc. 128)	ADP	Unrealized losses on securities for sale (acc.823)	ADP	Total (col. 2+3-4+5+6+7+8-9-10-11)	ADP	Losses above equity(acc. 842)
1		2		3		4		5		6		7		8		9		10		11		12		13
State at 1 January, of the previous 2011. year	401	13.881.010	414		427		440	14.581.543	453	9.235.440	466	663.008	479	2.709.309	492		505		518	15.882	531	41.054.428	544	
Correction of material important mistakes and changes of accounting policies in the prior year - increase	402		415		428		441		454		467		480		493		506		519		532		545	
Correction of material important mistakes and changes of accounting policies in the prior year - decrease	403		416		429		442		455		468		481		494		507		520		533		546	
Corrected opening balance as at 1 January of the previous 2011 year (no.1+2-3)	404	13.881.010	417		430		443	14.581.543	456	9.235.440	469	663.008	482	2.709.309	495		508		521	15.882	534	41.054.428	547	
Total increase in the previous year	405		418		431		444		457	2.400.000	470	82.249	483	3.968.545	496		509		522	49.855	535	6.400.939	548	
Total decrease in the previous year	406		419		432		445		458		471	55.637	484	3.125.961	497		510		523	1.797	536	3.179.801	549	
State at 31 December of the previous 2011 year (no. 4+5-6)	407	13.881.010	420		433		446	14.581.543	459	11.635.440	472	689.620	485	3.551.893	498		511		524	63.940	537	44.275.566	550	
Correction of material important mistakes and changes of accounting policies in the current year - increase	408		421		434		447		460		473		486		499		512		525		538		551	
Correction of material important mistakes and changes of accounting policies in the current year - decrease	409		422		435		448		461		474		487		500		513		526		539		552	
Corrected opening balance as at 1 January of the current 2012 year (no. 7+8-9)	410	13.881.010	423		436		449	14.581.543	462	11.635.440	475	689.620	488	3.551.893	501		514		527	63.940	540	44.275.566	553	
Total increase in the current year	411		424		437		450		463	3.150.000	476	71.046	489	2.274.424	502		515		528	17.151	541	5.478.319	554	
Total decrease in the current year	412		425		438		451		464		477		490	3.498.265	503		516		529	3.608	542	3.494.657	555	
State at 31 December of the current 2012 year (no.10+11-12)	413	13.881.010	426		439		452	14.581.543	465	14.785.440	478	760.666	491	2.328.052	504		517		530	77.483	543	46.259.228	556	

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД 3

NOTES

TO FINANCIAL STATEMENTS FOR THE SECOND QUARTER OF 2012

Belgrade, July 2012

1. INCORPORATION AND OPERATION OF THE BANK

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

As at 30 June 2012, the largest holdings in the Bank's voting shares are those of:

1. Republic of Serbia
2. EBRD, London, and
3. ARTIO INT. EQUITY FUND, New York

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 2012, the Bank consisted of the Head Office in Belgrade located in Svetog Save Street, No. 14, 24 branches and 226 sub-branches.

As at 30 June 2012, the Bank employed 3,005 persons, and on 31 December 2011 the number of employees was 3,022. 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 and Audit of the Republic of Serbia (RS Official Gazette, numbers 46/2006, 111/2009), 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 and Audit, 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.

At preparing and presenting interim financial statements for the January-June 2012 period, the Bank was using the same accounting policies and calculation methods as used when preparing the Annual Financial Statements for 2011.

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 conformance with the Law on Capital Market (RS Official Gazette, number 31/2011). The prescribed set of quarterly financial statements includes: Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Capital, and Notes to Financial Statements.

2.2. Assessment Rules

Financial statements are prepared based upon 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. BALANCE SHEET AND INCOME STATEMENT STRUCTURE, OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS

BALANCE SHEET

The structure of the Bank's total balance sheet assets and liabilities, and the participation of certain categories are as follows:

in thousand RSD

	30.06.2012		31.12.2011	
ASSETS	Amount	%	Amount	%
Cash and cash equivalents	20.826.668	6,88	17.228.970	6,25
Callable deposits and loans	43.003.040	14,21	55.260.711	20,06
Receivables based on interest, fees, sales, change in fair value, derivates and other receivables	1.619.984	0,54	1.187.573	0,43
Loans and deposits	178.256.043	58,89	155.719.207	56,52
Securities (without treasury shares)	37.390.047	12,35	25.637.972	9,31
Stakes (participations)	5.881.850	1,94	5.823.583	2,11
Other placements	3.540.485	1,17	2.187.533	0,79
Intangible investments	562.448	0,19	555.415	0,20
Fixed assets and investment immovables	7.439.645	2,46	7.530.271	2,73
Non-current assets intended for sale and assets of discontinued operations	101.040	0,03	101.040	0,04
Deferred tax assets	29.870	0,01	-	-
Other assets	4.018.640	1,33	4.256.443	1,55
TOTAL ASSETS	**302.669.760**	**100,00**	**275.488.718**	**100,00**

In thousands RSD

LIABILITIES	30.06.2012 Amount	30.06.2012 %	31.12.2011 Amount	31.12.2011 %
Transaction deposits	29.681.314	9,81	31.456.575	11,42
Other deposits	196.408.855	64,89	174.666.705	63,40
Loans received	2.525.916	0,83	1.603.761	0,58
Obligations based on interest, fees, and change in derivatives' value	193.963	0,06	205.079	0,07
Provisions	1.659.952	0,55	2.135.436	0,78
Tax obligations	51.350	0,02	39.737	0,01
Obligations from profit	88.040	0,03	172.197	0,06
Deferred tax obligations	46.906	0,02	17.036	0,01
Other obligations	25.754.236	8,51	20.916.626	7,59
Capital	46.259.228	15,28	44.275.566	16,07
TOTAL LIABILITIES	**302.669.760**	**100,00**	**275.488.718**	**100,00**

INCOME STATEMENT

Income and expense structure and their share in the corresponding 2012 Income Statement categories are as follows:

In thousands RSD

INCOME	30.06.2012 Total	30.06.2011 Total
Interest income	9.666.651	8.677.604
Fee and commission income	2.473.767	2.382.595
Net profit based on sale of securities through Income Statement	-	-
Net profit based on sale of securities available for sale	82.069	1.254
Net income base don exchange differentials	-	1.859.460
Income from dividends and participations	1.306	7.081
Other operating income	119.918	95.166
Income based on change in the value of property and obligations	13.137.349	7.854.953

In thousands RSD

EXPENSES	30.06.2012 Total	30.06.2011 Total
Interest expense	4.605.940	4.067.228
Fee and commission expense	346.852	270.714
Net loss based on sale of securities at fair value through Income Statement	1.104	4.064
Net expense based on exchange differentials	10.004.069	-
Net expenses based on indirect write-off of placements and provisions	287.262	530.566
Costs of wages, wage compensation and other personal expenses	2.014.605	1.826.729
Depreciation costs	369.461	313.603
Operating and other operating expenses	2.486.095	2.040.651
Expenses based on change in the value of property and obligations	3.091.248	9.817.732

Result of the period (profit)	**2.274.424**	**2.006.826**

CASH FLOW STATEMENT

In thousands RSD

Item	30.06.2012 Total	30.06.2011 Total
Cash inflows from operating activities	**10.598.719**	**10.390.519**
Inflow from interest	8.017.026	7.945.741
Inflow from fees	2.477.758	2.389.453
Inflow from other operating income	102.629	48.244
Inflow from dividends and share in the profit	1.306	7.081
Cash outflows from operating activities	**8.388.461**	**7.307.097**
Outflow based on interest	3.366.196	3.243.057
Outflow based on fees	353.542	277.627
Outflow based on gross wages, wage compensation and other personal expenses	1.857.129	1.654.765
Outflow based on taxes, contributions and other charges against income	404.607	352.589
Outflows based on other operating costs	2.406.987	1.779.059
Net cash inflow from operating activities before increase or decrease in placements and deposits	**2.210.258**	**3.083.422**
Decrease of placements and increase of taken deposits	**17.860.621**	**-**
Increase of bank and client deposits	17.692.474	-
Decrease of loans and placements to banks and clients	168.147	-

Item	30.06.2012 Total	30.06.2011 Total
Increase of placements and decrease of taken deposits	**570.993**	**12.274.601**
Increase of loans and placements to banks and clients	-	5.572.647
Increase of securities at fair value through Income Statement, trading placements and short-term securities held to maturity	570.993	2.567.719
Decrease of deposits from banks and clients	-	4.134.235
Net cash inflow from operating activities before profit tax	**19.499.886**	**-**
Net cash outflow from operating activities before profit tax	**-**	**9.191.179**
Paid profit tax	377.690	176.195
Paid dividends	252.665	288.853
Net cash inflow from operating activities	**18.869.531**	**-**
Net cash outflow from operating activities	**-**	**9.656.227**
Cash inflows from investment activities	**1.144.055**	**19.668**
Inflow from long-term investment in securities	1.138.804	8.951
Inflow from sale of intangible investments and fixed assets	5.251	10.717
Cash outflows from investment activities	**11.582.012**	**286.493**
Outflow based on investment in long-term securities	11.262.382	-
Outflow for purchase of intangible investments and fixed assets	318.879	284.647
Outflow for purchase of stakes (participations)	751	1.846
Net cash outflows from investment activities	**10.437.957**	**266.825**
Cash inflows from financing activities	**5.170.193**	**2.660.899**
Net cash inflows based on subordinated obligations	558.970	-
Net cash inflows based on borrowed loans	4.611.223	2.660.899
Net cash inflow from financing activities	**5.170.193**	**2.660.899**
Total net cash inflow	**34.773.588**	**13.071.086**
Total cash outflow	**21.171.821**	**20.333.239**
Net cash increase	**13.601.767**	**-**
Net cash decrease	**-**	**7.262.153**
Cash at the beginning of the year	**17.228.970**	**20.724.645**
Positive exchange rate differentials	7.664.355	5.479.578
Negative exchange rate differentials	17.668.424	3.620.117
Cash at the period-end	**20.826.668**	**15.321.953**

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 the conditions from the obligation relationship which are 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 between January and June 2012 totaled 5,060,711 thousand dinars and was larger by 450,335 thousand dinars or by 9.77% against the same quarter of the preceding year.

3.2. Fees and Commissions 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 fees for guarantee approval and other contingent liabilities is accrued in accordance with the period of duration and recognized in the Income Statement proportionally to the duration period.

Net income from fees in the period between January and June 2012 amounts to 2,126,915 thousand dinars and is larger against the same period of 2011 by 0.71% or 15,034 thousand dinars.

3.3. Income and Expenses Based on Securities

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 2012 period under review, net gain from the sale of securities of 82,069 thousand dinars fully relates to the sale of the Republic of Serbia securities, namely: the securities issued in foreign currency – 79,580 thousand dinars, and to the securities issued in dinars – 2,489 thousand dinars.

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.

Dividends received on the basis of investment in the shares of other legal entities are shown as income from dividend at the time of their collection.

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

3.4. Restatement of FX Amounts – Income and Expenses from Exchange Rate Differentials

Business transactions in foreign currency were restated in the dinars at mid-exchange rate fixed 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 the dinars at mid-exchange rate fixed on the inter-bank FX market, applicable on that date.

Net positive or negative exchange rate differentials occurring on the occasion of business transactions in foreign currency and at restating the balance sheet items shown in foreign currency, were posted to or against the income statement as gains or losses based on exchange rate differentials.

Net expenses based on exchange rate differentials in the reporting January-June 2012 period amounted to 10,004,069 thousand dinars, while in the same period of 2011 the Bank recorded a net positive effect of exchange rate differentials at the level of 1,859,460 thousand dinars. This is a direct consequence of the dinar exchange rate movements against the basked of currencies between the two reporting periods under review.

Assumed contingent liabilities in foreign currency were restated in the dinars at mid-exchange rate fixed on the inter-bank FX market applicable as at the balance sheet date.

3.5. Other Operating Income

In total other types of income worth 119,918 thousand dinars other operating revenues had the largest share of 65.34%. The percentage share of these revenues in other types of operating income was 78.81% in the same reporting period of 2011.

3.6. Net Expenses Based on Indirect Write-Off of Placements and Provisions

The Bank classifies its financial assets into the following categories: financial assets at fair value whose effects of the 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 qualification depends on the purpose for which the financial assets have been acquired. Management classifies its financial placements at the time of initial recognition.

The Bank's financial assets are appraised as at the balance sheet date so as to establish whether objective proofs of impairment exist. If proofs of impairment exist, a recoverable amount of placement is determined. In order to manage the credit risk adequately and efficiently, the Bank has prescribed by its internal acts special policies and procedures for identifying the bad assets and for managing such assets.

The Bank's management makes estimates of the recoverability of receivables and/or allowance for placements on the basis of individual assessment of risky receivables. Risky receivables are all receivables with delays in repayment. The Bank assesses the recoverable amount of receivables and placements 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 of the period in which the impairment occurred. If in later periods the Bank management finds that conditions have changed and that impairment is no longer in place, the allowance made earlier is abolished in favor of income. Abolishment of the allowance cannot result in a carrying value of the asset which would be larger than the value such asset would have had if it had not been impaired earlier.

Net expenses based on indirect write-off of placements and provisions amounted to 287,262 thousand dinars and were smaller by 243,304 thousand dinars against the same period of 2011.

3.7. Costs of Wages, Wage Compensations and other Personal Expenses

Costs of wages, wage compensations and other personal expenses of 2,014,605 thousand dinars were by 187,876 thousand dinars or 10.28% larger against the same period of the last year, mainly due to the rise of the cost of labor by 7.5% in October 2011 and the rise of average exchange rate of the dinar against EUR for the wages contracted with the currency clause.

3.8. Depreciation Costs

Depreciation costs equal to 369.461 thousand dinars were larger against the January-June 2011 period by 55,858 thousand dinars or 17.8 %, mainly due to the newly purchased fixed assets and intangible investments during the previous and this year.

3.9. Operating Costs and other Operating Costs

Operating costs and other operating costs shown in the amount of 2,486,095 thousand dinars were above those in the same period of the preceding year by 445,444 thousand dinars or 21.83%.

Other operating costs mainly relate to a part of the costs resulting from the lost court lawsuit based on the judgment of the Economic Court of Belgrade. The costs equaled 186,107 thousand dinars (the difference between the adjudged amount and the amount of the provisions for court costs; more details about the court lawsuit in point 3.17.)

The increase in operating costs is mainly the result of the Bank's development and adjustment with the contemporaneous technological standards which relate to the following undertaken activities:

- replacement of VISA and MASTER card with "chipped cards (increase in the cost of material – chipped plastic)
- introduction of a reserve location of the Data centre (electronic communication and current maintenance costs)
- introduction of the new functionality in ATMs and installation of PIN GUARD protection (costs of current ATM maintenance)
- increase of retail client deposits (deposit insurance costs).

3.10. Income and Expenses Based on Changed Value of Property and Obligations

Loans and deposits 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 rise index, were revalued in accordance with the concrete agreement for each loan. The difference between the nominal value of outstanding loan principal or unpaid deposits and the revalorized amount is shown within the receivables based on placements or obligations based on deposits. The effects of this revaluation are recorded within income and expenses based on changed value of property and obligations.

In the period between January and June 2012, income from changed value of property and obligations totaled 13,137,349 thousand dinars, and expenses on this basis were at the level of 3,091,248 thousand dinars, which makes a net income of 10,046,101 thousand dinars. The shown net income unlike net expense of the preceding period (equal to 1,962,779 thousand dinars) was under direct influence of the movements of the dinar exchange rate for placements and obligations contracted with the currency clause (EUR, USD and CHF) as a form of protection against the risk.

BALANCE SHEET

ASSETS

In the Bank assets, loans and deposits had a dominant share of 58.89% (2011: 56.52%), followed by callable deposits and loans with a share of 14.21% (2011: 20.06%), cash and cash equivalents with a share of 6.88% (2011: 6.25%), and securities (without treasury securities) with a share of 12.35% (2011: 9.31%).

3.11. Cash and Cash Equivalents

In the cash flow balance sheet, cash and cash equivalents involve the cash, assets in accounts with other banks and checks sent for collection.

As at 30 June 2012, cash and cash equivalents totaled 20,826,668 thousand dinars and accounted for 6.88% of total Bank assets (6.25 % on 31 December 2011.) Against 31 December 2011, this item is larger by 3,597,698 thousand dinars or 20.9% and mostly resulted from the increase of assets in the dinar account because of the raised reserve requirement in dinars. The raising of the reserve requirement was particularly influenced by the NBS decision which refers to the period between 18 June and 17 July 2012.

3.12. Callable Deposits and Loans

As at 30 June 2012, callable deposits and loans at the level of 43,003,040 thousand dinars and the percentage share of 14.21% in total assets registered a drop against 2011 by 12,257,671 thousand dinars or by 22.2%. Net drop is the result of the decrease of placements based on repo transactions in dinars by 11,500,000 thousand dinars and the decrease in allocated reserve requirement assets with the NBS in foreign exchange by 757,671 thousand dinars.

3.13. Loans and Deposits

Loans are shown in the balance sheet at the level of approved placements, less repaid principal and less the allowance based on the assessment of the concretely identified risks for certain placements and risks that are empirically included in the loan portfolio. In assessing the mentioned risks, the management applies the methodology which is 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 rise index, were revalued in accordance with the concrete agreement for each loan. The difference between the nominal value of outstanding principal and the revalued amount is shown within the receivables based on placements. The effects of this revaluation are recorded within income and expense based on changed value of property and obligations.

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 to or against the income statement as gains or losses based on exchange rate differentials.

Loans approved and deposits in the amount of 178,256,043 thousand dinars and with a share of 58.89% in total assets in 2012 were larger against 2011 by 22,536,836 thousand dinars or 14.50%. The most significant loan increase was registered in the enterprise segment – by 16.10%.

3.14. Securities without Treasury Shares

Placements in securities without treasury shares in the amount of 37,390,047 thousand dinars or with a share of 12.35% against total assets, registered a growth against 2011 by 11,752,075 thousand dinars or 45.80% as a result of larger placements in bonds and treasury bills of the Republic of Serbia in foreign currency.

3.15. Other Placements, Intangible Investments, Fixed Assets and Investment Immovables, Non-Current Assets Intended for Sale and Other Assets

All of the mentioned items account for only 5.18% of total assets, of which the largest percentage relates to fixed assets and investment immovables in the amount of 2.46%, other assets 1.33% and other placements 1.17%. Other assets in the amount of 4,018.640 thousand dinars registered a drop against 2011 by 237,803 thousand dinars mainly due to the impact of the decrease of receivables based on purchase-sale of foreign exchange on the foreign exchange market relative to the growth of other categories of other placements.

LIABILITIES

In the period January - June 2012, no major changes took place in the structure of liabilities against 31 December 2011. In the structure of assets, deposits and capital continued their dominant share with the total percentage of 89.98% (2011: 90.89%) of total liabilities. Other items accounted for 10.02% of total liabilities. The largest portion of this item related to other obligations in the amount of 8.51%.

3.16. Deposits

Deposits are shown at the level of deposited amounts which can be increased by calculated interest, which depends on the obligation relationship between the depositor and the Bank. The Bank used to contract deposit interest rates depending on the deposit amount.

FX deposits are shown in the dinar according to mid-exchange rate of currencies applicable as at the balance sheet date.

In the balance sheet, deposits are shown as transaction and other deposits.

The most significant share in the structure of liabilities was that of other deposits in the amount of 196,408,855 thousand dinars which represented 64.89% of total liabilities (2011: 63.40%), followed by transaction deposits in the amount of 29,681,314 thousand dinars with a share of 9.81% (2011:11.42%) and capital in the amount of 46,259,228 thousand dinars and a share of 15.28% (2011:16.07%).

If compared with 2011, the Bank maintained the share of transaction deposits at approximately the same level. In the structure of transaction deposits, deposits in local currency continued to be dominant with the share of

61.14%, while the remaining 38.86% relates to deposits in foreign currency. In other deposits, dominant was the share of deposits in foreign currency – 84.60%, while the share of dinar deposits was 15.40%.

3.17. Provisions

The Bank's provisions of 1,659,592 thousand dinars include the provisions for: coverage of obligations (court lawsuits), long-term employee wages, and provisions for losses under off-balance sheet assets. In the period under review, the provisions dropped against 2011 by the amount of 475,484 thousand dinars. The drop principally refers to the utilization of the provisions for court litigations, i.e. for the covering the loss based on the lost court lawsuit involving the client Inex Interexport ad in bankruptcy.

3.18. Capital

The Bank's capital comprises the original founding capital, shares of later issues, reserves from the 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 assets of the Bank founders. The founder cannot withdraw the assets invested in the Bank's capital.

As at 30 June 2012, the Bank's capital consists of:

In thousands RSD	2012	2011
Share capital	13.881.010	13.881.010
Issue premium	14.581.543	14.581.543
Capital	28.462.553	28.462.553
Reserves from the profit	14.785.440	11.635.440
Revaluation reserves	760.666	689.620
Unrealized losses based on securities available for sale	(77.483)	(63.940)
Reserves	15.468.623	12.261.120
Accumulated profit	2.328.052	3.551.893
Balance	**46.259.228**	**44.275.566**

In conformance with the Bank's founding acts, the Bank's capital consists of the share capital and Bank reserves.

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

The Bank is bound to maintain the minimum capital adequacy ratio of 12% established by the National Bank of Serbia, in accord with the Basel Convention applicable to all banks. The capital adequacy ratio of the Bank as at 30 June 2012, calculated on the basis of the financial statements, is 15.50 % by application of the known decisions of the National Bank of Serbia for 2012.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10.000 thousand. As at 30 June 2012, the pecuniary portion of the capital was above the prescribed level.

The structure of the share capital – ordinary shares as at 30 June 2012 was as follows:

Shareholder Name	% share
Republic of Serbia	42,60
EBRD, LONDON	25,00
ARTIO INT. EQUITY FUND, New York	4,77
Jugobanka AD Beograd in bankruptcy	3,69
Evropa osiguranje AD Beograd in bankruptcy	2,86
INVEJ DOO, Beograd	2,64
Kompanija Dunav, Beograd	1,97
Other	16,47
	100,00

By the Resolution of the Bank's Meeting, number 6390/1-3 of 25 April 2012, the 2011 profit was distributed. By the said distribution, the amount of 3,150,000 thousand dinars was allocated to reserves, which contributed to the increase of the reserves between the two periods under review.

The Shareholder Meeting of Komercijalna Banka AD Beograd adopted at its extraordinary session held on 04 April 2012 the Resolution on the 25th issue of shares – preference shares convertible into the Bank's ordinary shares by public offer without the obligation of publishing a prospectus to qualified investor – the Republic of Serbia, for the purpose of the original capital increase.

The issue was not realized until the date of submission of these Notes because the shareholder, the Republic of Serbia, has neither subscribed nor paid up the shares, which is envisaged by the Law on the Republic of Serbia 2012 Budget.

4. RECEIVABLES FROM AND OBLIGATIONS TO SUBSIDIARIES

4. A. Balance as at 30 June 2012

RECEIVABLES

Sbsidiary	Plac. & loans	Interest & fees	Other assets	Allowances	Net BS exposure.	Off-balance	Total
1. Kom. banka AD Budva	5.695	899	1.040	-	7.634	-	7.634
2. Kom.banka AD Banja Luka	3.018	-	1.518	-	4.536	926.562	931.098
3. Kombank INVEST	-	-	-	-	-	200	200
TOTAL:	**8.713**	**899**	**2.558**	-	**12.170**	**926.762**	**938.932**

OBLIGATIONS

Subsidiary	Deposits & loans	Interest & fee	Other oblig.	Total
1. Kom. banka AD Budva	150.309	-	1.617	151.926
2. Kom.banka AD Banja Luka	294.403	-	67	294.470
3. Kombank INVEST	14.795	31	-	14.826
TOTAL:	**459.507**	**31**	**1.684**	**461.222**

INCOME AND EXPENSES for the period from 01.01 - 30.06.2012

Subsidiary	Interest income	Fee and commission income	Interest expense	Fee and commission expense	Net income / expense
1. Kom. banka AD Budva	123	603	-	(492)	234
2. Kom.banka AD Banja Luka	992	534	(290)	(281)	955
3. Kombank INVEST	-	72	(939)	-	(867)
TOTAL:	**1.115**	**1.209**	**(1.229)**	**(773)**	**322**

On the grounds of the transactions with the subsidiaries, Komercijalna banka ad Beograd registered net negative exchange rate differentials in the amount of 30,817 thousand dinars.

4. B. Balance as at 31 December 2011

RECEIVABLES

Subsidiary	Placem. & loans	Interest and fees	Allowances	Net BS exposure	Off-balance	Total
1. Kom. banka AD Budva	5.061	780	-	5.841	-	5.841
2. Kom.banka AD Banja Luka	2.727	-	-	2.727	837.127	839.854
3. Kombank INVEST	6	-	-	6	194	200
TOTAL:	**7.794**	**780**	-	**8.574**	**837.321**	**845.895**

OBLIGATIONS

Subsidiary	Deposits and loans	Interest and fees	Other oblig.	Total
1. Kom. banka AD Budva	185.081	-	1.461	186.542
2. Kom.banka AD Banja Luka	3.802	-	-	3.802
3. Kombank INVEST	16.683	43	-	16.726
TOTAL:	**205.566**	**43**	**1.461**	**207.070**

INCOME AND EXPENSES for the period 01.01 - 30.06.2011

Subsidiary	Interest income	Fee and commission income	Interest expense	Fee and commissi on expense	Net income / expense
1. Kom. banka AD Budva	154	244	(2.618)	(109)	(2.329)
2. Kom.banka AD Banja Luka	86	463	(26.481)	(103)	(26.035)
3. Kombank INVEST	-	134	(1.125)	-	(991)
TOTAL:	**240**	**841**	**(30.224)**	**(212)**	**(29.355)**

On the grounds of the transactions with the subsidiaries, Komercijalna banka ad Beograd registered net positive exchange rate differentials in the amount of 200,177 thousand dinars.

5. RISK MANAGEMENT

The Bank has recognized the process of risk management as the key element of business management, given that exposure to risks arise from all business activities, as inseparable part of bank activities managed through identification, measurement, mitigation, monitoring and control and reporting, as well as through the establishment of risk limits and reporting in accordance with the strategies and policies.

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

The Bank defines risk profile for risk assumption, on the basis of the capacity to cover risks to which it is or may be exposed. The risk assumption represents the core substance of the bank business activities and has an immense impact on continuous profitable business of the Bank.

Using a Strategy for risk management and Strategy for managing capital, the Bank has set the following objectives within the system of risk management: minimizing adverse effects on the financial result and the capital with respect to defined frames of accepted risk level, maintaining the required level of capital adequacy, development of the Bank activities according to the business abilities and development of the market in order to achieve competitive advantages.

Risk management system

Risk management system is defined by the following enactments:

- Strategy for risk management and Strategy for managing capital,
- Risk management policies,
- Risk management procedures;
- Methodologies for individual risk management,
- Other.

Strategy for risk management defines:

- long-term goals, determined by the business policy and strategy of the Bank, as well as preference to certain risks according to that goals;

- basic principles of assumption and management of risks;
- basic principles of the Bank's capital adequacy internal assessment process;
- overview and definitions of all the risks the Bank is or may be exposed to.

The Bank has determined the basic principles of risk management in order to fulfill its long-term goals:

- organizing business activities for a separate risk management organizational unit;
- functional and organizational separation of risk management activities from regular business activities of the Bank;
- comprehensiveness of risk management;
- effectiveness of risk management;
- cyclicality of risk management;
- development of risk management as strategic issue;
- risk management represents a part of business culture.

Managing policies for certain types of risks are closely defined by:

- the way of organizing the Bank risk management process and clear delineation of employees' responsibilities within all phases of that process;
- the way of assessment of the Bank's risk profile and methodology for identifying and measuring, namely risk assessment;
- ways to monitor and control risks, and establishing a system of limits and limit types used by the Bank and its structure;
- the measures for mitigation of risk and rules for applying those measures;
- the way and methodology for conducting the process of internal assessment of capital adequacy of the Bank;
- principles of operating of the internal control system;
- frame and frequency of stress testing, as well as acting in cases of unfavorable results of stress tests.

Using procedure for risk management, the Bank defines the process of risk management and competencies and responsibilities of all organizational units of the Bank in the system of risk management.

Using individual methodologies, the Bank has prescribed in details methods and approaches used in the system of risk management.

Competencies

The Managing Board shall be responsible for establishing a uniform system of risk management and monitoring the system, adopting strategies and policies for risk management and capital management strategy, establishing a system of internal controls, supervision of the activities of the Executive Board, as well as the implementation of the process of internal assessment of capital adequacy.

The Executive Board shall be responsible for the implementation of strategies and policies for risk management and capital management strategy, the adoption and analysis of the effectiveness of risk management procedures, which more closely define the process of identification, measurement, mitigation, monitoring and control and reporting on the risks to which the Bank is exposed to, and shall report to the Managing Board on the effectiveness of application of defined risk management procedures.

The Audit Committee shall be responsible and liable for analyzing and monitoring the implementation and adequate enforcement of the adopted strategies and policies for risk management and internal control system. At least once a month, the Audit Committee reports to the Management Board on its activities and identified irregularities, and suggests methods for their removal.

The Asset and Liability Committee shall be responsible and liable for monitoring Bank exposure to risks arising from the structure of its balance sheet receivables, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Loan Board shall decide on credit applications within the framework determined by the regulations of the Bank, analyze the Bank exposure to credit, interest rate and currency risk and carry out internal audit findings under the authorization of the Board, and also propose measures to the Executive Board of the Bank.

Committee for debt recovery shall be responsible and liable for the management of high-risk loans, make decisions on risk assets write-off up to determined limit for making decisions and propose placement write-offs to the Executive Board and Managing Board for decision that extend determined limits.

Risk management function shall define and propose for adoption to the Managing Board, strategy and risk management policies, to the Executive Board procedures and methodologies of risk management, and identify measures, mitigates, monitors and controls, and reports on the risks to which the Bank is exposed to in its operations. It is also responsible for developing models and methodologies for all phases of risk management and reporting to competent authorities of the Bank.

Sector for asset management shall be responsible for asset and liquidity management, Bank asset and liability management, their overall financial structure, participating in the formation of interest rates policy and implementing transfer pricing policies.

Compliance department of the Bank (Compliance) is required at least once a year to identify and assess the main risks of compliance and propose plans to manage those risks, on which prepares reports and submits them to the Executive Board and the Audit Committee.

Internal Audit and *Audit Committee* shall conduct an independent evaluation of the risk management system, execute control of the Bank business operation regularity and efficiency of functioning the internal control system.

Risk management process

The Bank measures or assesses risks identified in its business activities, on the regular bases. Measurement involves the use of qualitative and quantitative measurement methods that allow identification of changes in the risk profile and risk assessment.

For all the identified risks the Bank determines their significance, which is based on a comprehensive assessment of the risks inherent to certain activities, products, processes and activities of the Bank.

Risk mitigation involves diversification, transfer, reduction and/or avoidance of risk and the Bank implements it in accordance with the risk profile and a tendency for risk.

Risk monitoring and control is based on limits established by the Bank, which depend on the business strategy and market environment, as well as the level of risk that the Bank is willing to accept.

The reports on risk management are regularly submitted to: Management Board, Executive Board, Audit Committee, Asset and Liability Committee and Loan Board, containing all the information necessary to assess risk and make decisions on the risks of the Bank.

Types of risk

The Bank in its business operations is particularly exposed to the following risks: credit and risks associated with it, liquidity risk, market risk, operational risk, investment risk, exposure risk and country risk, as well as all the other risks that may arise during the regular course of business activities of the Bank.

5.1. CREDIT RISK

Credit risk is the risk of possible occurrence of adverse effects on the financial result and equity of the Bank, due to default by the debtor to the Bank. The Bank credit risk is determined by the debtor's creditworthiness, his regularity in the execution of obligations to the Bank, as well as the quality of collateral.

Within the credit risk frame the Bank monitors the following:

- **Default risk** – the risk of loss that may occur if debtor fails to settle his obligation to the Bank;
- **Downgrade risk** – the risk of loss that may arise if there is a deterioration in the risk level of debtor (debtor credit rating downgrades);
- **Risk of change in the value of assets** – risk of loss that may arise on the assets positions if there is a decrease in market value related to the value of the assets purchased;
- **Credit and currency risk** represents the possibility that the Bank will suffer from loss due to default of the debtor within agreed terms, arising from the negative impact of dinar exchange rate changes to the financial condition;
- **Concentration risk** is the risk that directly or indirectly results from the Bank exposure to the same or a similar risk factor or type of risk, such as: exposure to a single person or group of related persons, industries, geographic areas, types of products and activities, credit protection instruments, financial instruments, goods...
- **Exposure risk** is the risk that may result from the Bank exposure to a single person, group of related persons or persons related to the Bank;
- **Country risk** is the risk associated with the debtor's country of origin and represents the risk of occurrence of adverse effects on the financial results and the Bank equity due to the inability to collect receivables from debtors as a result of economic or social conditions in the country of the debtor.

In addition to the above, the Bank monitors the following risks related to the credit risk:

- **Residual risk** is the risk that the credit risk mitigation techniques will be less effective than expected, and that their use will insufficiently affect the reduction of risk to which the Bank is exposed to.

- **Decrease of the receivables value risk** is the risk of possible arising of adverse effects on the financial results and equity of the Bank by decreasing the value of purchased receivables due to the cash or non-cash obligations of the prior creditor to debtor.
- **Settlement/delivery risk** is the risk of possible adverse effects on the financial results and equity of the Bank, arising from unsettled transactions or because of non-performance of free delivery transactions by the counterparty, on the agreed date of settlement/delivery.
- **Counterparty risk** is the risk of possible adverse effects on the financial results and equity of the Bank, based on the failure to pay the obligations by the counterparty in the transaction before the final settlement of the cash flow transaction or monetary settlement obligations under the transaction.

In accordance with the scope, type and complexity of activities performed, the Bank organized the process of credit risk management and clearly delineated the responsibilities of employees at all stages of the process. Organizational model of credit risk management system of the Bank ensures an adequate communication, information sharing and cooperation at all organizational levels, and also provides a clear, operational and organizational separation of the functions of an independent risk management and support activities on the one side, and the risk-taking activities and division of duties, competencies and responsibilities on the other. The Bank has also established an adequate information system which includes that the persons involved in the credit risk management system are being fully informed, using appropriate IT support and identifying the frequency of reporting to the Bank management.

The goal of credit risk management is to minimize the adverse effects of credit risk on the financial results and equity of the Bank, based on balance sheet and off-balance sheet placements and based on the business activities with the other contracting party for the positions kept in the Banking book and the Trading book.

The acceptable level of credit risk of the Bank is in compliance with defined Risk management strategy and depends on the structure of the Bank portfolio, based on which it enables limitation of the negative impact on the financial results and minimizing capital requirements for credit risk, settlement/delivery and counterparty risk in order to maintain a capital adequacy ratio at the acceptable level.

The basic principles of the credit risk management are:

- credit risk management at the level of individual placements and on the level of the Bank portfolio;
- maintaining the level of credit risk which minimizes the negative impact on the financial results and capital;
- ranking of the placements according to their riskiness;
- operations in accordance with the best practices for approval of placements;
- providing adequate controls to manage credit risk.

In order to manage credit risk, the Bank seeks to do business with good credit capacity customers and obtain adequate collaterals. The Bank evaluates each customer's creditworthiness at the time of submitting the request and performs regular and extraordinary monitoring of debtors, loans and collateral, in order to be able to take appropriate action for collecting debts.

Identification of credit risk involves analyzing all indicators, which leads to the occurrence and the increase of exposure to the credit risk. The Bank comprehensively and timely determines the current level of the credit risk exposure and assesses the causes of credit risk exposure arising from the incurred changes in the market, as well as on the basis of the introduction of new products and business activities.

The Bank performs quantitative and/or qualitative measurement, namely evaluation of the identified credit risk. Credit risk measurement process is based on two parallel approaches:

- regulatory approach – the process of loan impairment and estimate of provisions for losses on off-balance sheet positions under International accounting standard 39 and International accounting standard 37 and classification of debtor claims according to regulations the National Bank of Serbia;
- internal approach – measurement of the risk level for individual loans based on internal rating system.

The rating system is not only an instrument for shaping individual decisions and assessing the level of risk of individual investments, but the basis for portfolio analysis, support in defining the limits and approval of the Bank placements, as well as support to the loan impairment procedure and assessment of provisions for losses on off-balance sheet items, in order to rank risk level of placements and express the real value of receivables. Internal rating system is subject to regular audit and improvement.

When analyzing credit risk in addition to the Bank internal rating system the Bank also uses the principles prescribed by the National Bank of Serbia, which require classification of each placement based on the prescribed framework and calculation of reserve for credit risk assessment. Provisions for estimated losses represent protection against the possible negative consequences if invested funds are not returned on maturity date.

In order to maintain the credit risk to an acceptable level, the Bank has defined mitigation process which involves:

- defining the limit of exposure;
- decision-making system;
- defining and application of measures for credit risk mitigation.

Exposure limits in respect to individual debtors are based on assessment of creditworthiness, while limit exposures based on the portfolio level are directed to limit the concentration of exposure in the portfolio. The Bank continuously controls the movement of credit risk within a defined risk profile.

The basic techniques to reduce the risk are mitigation, diversification, transfer and avoidance, which are engaged in order to minimize losses.

Using the process of monitoring credit risk, the Bank has defined the rules relating to liability, frequency and reporting on the implementation of measures adopted to minimize credit risk.

Monitoring the quality of placements at the level of individual debtor is primarily based on providing of updated information on the financial condition and creditworthiness of the borrower and the market value of the collateral, while monitoring of credit risk at portfolio level is performed by identifying changes on the level of client groups of certain risk level, placement, collateral, required reserves for expected and unexpected losses, in order to determine and manage the condition and quality of asset. The Bank also provides ongoing monitoring and checks up the adequacy of the process of ranking placements into risk categories according to the degree of collectability.

Control of credit risk implies the process of continuous adjustment of the business operations with the defined limit system on daily and monthly basis, as well as in conditions when the exposure to credit risk tends to move to the upper limit of a defined risk profile, or during the introduction of new products and business activities.

In order to maintain protection against the risk of default in business activities with the clients, the Bank shall take the following measures to regulate receivables: rescheduling or restructuring, settlement, receipt of goods or property in order to collect receivables for the Bank, sale of receivables, concluding agreements with interested third parties, initiation of legal proceedings and other measures.

The Bank shall approve rescheduling and restructuring of debts to the clients with specific problems in performing business operations. If taken measures which regulate placements or enforced collection legal proceedings did not give the expected results, or when there is no possibility to pay dues in full, a proposal is initiated for a permanent write-down of the remaining Bank receivables. Special role in making decisions on collecting risk placements has the Loan Board.

Aside from the credit exposure the Bank also has an off-balance sheet exposures (different types of payment guarantees and performance guarantees, sureties, letters of credit) based on which the Bank has a potential obligation to make payments on behalf of third parties. For off-balance sheet exposures the Bank uses the same control processes and procedures used for credit risk.

Reporting on credit risk includes a system of internal and external reporting, performed on a monthly basis and according to established dynamics, pursuant to defined reporting system.

5.1.1. Total exposure to credit risk

The biggest credit risk for the Bank arises from the realized credit line arrangements, but the Bank is also exposed to the risk arising from off-balance sheet positions originating from potential and assumed obligations. Total exposure to credit risk is shown in the gross amount before the effects of mitigation based on the amount of impairment.

Summary of assets (gross) **In thousand dinars**

	Classifying assets		Non-classifying assets		Total	
	30/06/2012	31/12/2011	30/06/2012	31/12/2011	30/06/2012	31/12/2011
Summary of assets	**199,325,773**	**176,157,075**	**47,526,266**	**57,852,717**	**246,852,039**	**234,009,792**
Revocable deposits and credits	-	-	43,003,040	55,260,711	43,003,040	55,260,711
Receivables from interests, fees, sales, changes in fair value of derivatives and other receivables	3,205,518	2,766,031	81,417	61,441	3,286,935	2,827,472
Granted loans and deposits	186,934,474	165,176,321	2,774,099	1,233,132	189,708,573	166,409,453
Other placements	6,062,757	4,580,028	459,779	401,452	6,522,536	4,981,480
Other assets	3,123,024	3,634,695	1,207,931	895,981	4,330,955	4,530,676
Other assets	**5,573,315**	**4,863,737**	**58,897,922**	**44,201,587**	**64,471,237**	**49,065,324**
Cash and cash equivalents	3,624,332	4,058,814	17,202,336	13,170,156	20,826,668	17,228,970
Securities	1,256,236	170,426	36,136,312	25,472,156	37,392,548	25,642,582
Participation in capital	692,747	634,497	5,559,274	5,559,275	6,252,021	6,193,772
Off-balance items	**37,937,704**	**32,402,458**	**60,924**	**57,005**	**37,998,628**	**32,459,463**
Payment guarantees	8,156,912	7,145,564	-	-	8,156,912	7,145,564
Performance guarantees	8,172,667	6,812,395	143	484	8,172,810	6,812,879
Sureties and draft acceptance	68,648	77,853	-	-	68,648	77,853
Irrevocable Letters of credit	1,134,710	713,306	-	-	1,134,710	713,306
Assumed irrevocable obligations	19,973,613	16,324,350	60,527	56,521	20,034,140	16,380,871
Other	431,154	1,328,990	254	-	431,408	1,328,990

5.1.2. Risk of asset quality changes

The Bank asset quality is measured by the degree of exposure to certain risk categories according to the criteria of the internal rating system. The internal rating system considers both quantitative and qualitative parameters for determining the rating of the debtor. The rating scale consists of five risk categories, which are further divided into 17 subcategories. The rating scale is used as a unique method of assigning rating which ensures that clients with the same credit rating have the same characteristics and the same probability of not meeting its obligations, in part or in full for a period of one year. The basic parameters determining the credit risk subcategory rating are calculated and monitored on a monthly basis.

Low risk level means performing business operations with clients with good credit capability acceptable for the Bank (rating categories 1 and 2), an increased level of risk is for business activities with the clients with difficulties in business operations that may adversely affect the settlement of liabilities and whose operations are monitored intensively (category rating 3) and high level of risk is applied on the clients with the negative business results and poor credit history (risk category 4 and 5).

The Bank protects itself from changes in asset quality risk through continuous monitoring of clients business operations, identifying changes that may arise from deteriorating state of debtor, delays in repayment or changes in the environment, as well as providing adequate collateral.

5.1.3. Risk of change in the value of assets

Impairment of investments aims at providing a reasonable, careful and timely determination of losses due to impairment of loans, as well as interventions for potential liabilities, in order to protect the Bank equity in the period when the loss is definitely confirmed (realized) due to the inability to collect the agreed amount or by outflow of funds for the settlement of possible liabilities.

The main elements in the assessment of impairment of loans are as follows: delay in payment of principal or interest, difficulties in cash flow of the borrower, decrease in credit rating or change of the original terms of the contract, and other.

Impairment of investments is based on estimates of expected future cash flows from business operations of clients, as well as the realization of collateral in case it is assessed that the loan will be repaid in real terms from those funds.

Assessment of balance sheet receivables impairment

The Bank assesses impairment of receivables through an individual or collective assessment.

Individual assessment
The Bank assesses adjustment for each individually significant placement and on that occasion are taken into account the financial position of the borrower, the sustainability of the business plan, its ability to improve its performance in the event of financial difficulties, the projected income, the availability of other types of financial support and the value of collateral that can be implemented, as well as timing of the expected cash flows.

Collective assessment
Adjustments of losses are assessed collectively for loans that are not individually significant and for individually significant loans where there is no objective evidence of individual impairment. This assessment is carried out by groups that are formed on the basis of internally prescribed methodology, based on the internal rating system and on a monthly basis. Establishing a collective evaluation is based on the migration of risk categories into the status of default, according to the type of customer or product. The obtained migration percentages are being corrected for performed debt collection.

Impairment of credit decreases the value of credit and it is recognized as an expense in the Income statement.

Assessment of possible loss under off-balance items

Determining the potential loss on off-balance sheet items (contingency) is made when it is estimated that there is enough certain expectation that there will be an outflow of funds to settle the potential liability.

When estimating provisions for potential losses on off-balance sheet items, means of foreclosure are recognized if there is absolute certainty that an outflow of funds for contingent liabilities is to be paid from the collateral.

Summary of individual and collective impairment of balance sheet assets In thousand dinars

	Credits and placements		Participation in capital	
	30/06/2012	**31/12/2011**	**30/06/2012**	**31/12/2011**
I. Individual adjustment of value				
Gross placement	43,606,949	37,454,350	6,252,021	6,193,771
Adjustment of value	12,722,674	11,811,811	370,171	370,188
Book value	30,884,275	25,642,539	5,881,850	5,823,583
II. Collective adjustment of value				
Gross placement	130,488,304	122,228,891	-	-
Adjustment of value	3,569,758	3,476,069	-	-
Book value	126,918,546	118,752,822	-	-
III. Due but not adjusted placements				
0-30 days	2,357,061	91,047	-	-
31-60 days	267,546	13,381	-	-
61-90 days	383	7,379	-	-
91-180 days	-	-	-	-
over 180 days	-	-	-	-
Book value	2,624,990	111,807	-	-
IV. Unmatured not adjusted placements				
Book value	22,605,530	16,362,027	-	-
Total book value gross	**199,325,773**	**176,157,075**	**6,252,021**	**6,193,771**
Total adjusted value	**16,292,432**	**15,287,880**	**370,171**	**370,188**
Total book value net	**183,033,341**	**160,869,195**	**5,881,850**	**5,823,583**
Total unclassified assets	**47,526,266**	**57,852,717**		
TOTAL	**246,852,039**	**234,009,792**		
Included reprograms/restructured placements	**26,692,409**	**22,540,561**		

5.1.4. Concentration risk

The Bank manages the exposure to concentration risk by limiting and monitoring exposure toward specific groups with the same or similar risk factors. Measuring and mitigating exposure to the concentration risk is achieved through the established system of limits, which includes internal limits of exposure to economic sectors/industries, types of products, geographic areas, 20 largest exposures and similar. Establishment of appropriate exposure limits is the basis for the control of concentration risk in order to diversify the loan portfolio.

Depending on general economic movements, movements in individual sectors and geographical areas, the Bank diversifies investment in industrial sectors that are resistant to the impact of adverse economic developments.

5.1.5. Means of protection against credit risk (collateral)

In order to protect itself against the exposure to credit risk, in addition to regular monitoring of clients, the Bank obtains security instruments (collaterals), which provide payment of receivables and minimize credit risk. Depending on the assessment of the possibilities of settlement of contractual obligations, the level of placement cover is defined, so in the event of default of the debtor, by activating collaterals, the receivables could be collected in real. The value and type of required collateral depends on the assessment of credit risk.

As standard bank collateral the Bank as well obtains from customers contractual authorization and drafts, while as additional instrument, depending on the assessment of credit risk, other placements are contracted:

- for commercial credits – pledge of movable and immovable assets (mortgages), deposits, banking, corporate and government guarantees, warrants, pledged securities...
- for retail credit – mortgages, deposits, joint debtor warrants, insurance issued by the national insurance corporation for insuring housing credits...

During appraisal of immovable or movable property pledges, the Bank engages licensed appraisers in order to subject the potential risk of unrealistic estimate to the lowest possible level. Real estate, goods, equipment and other movable property that are the subject of the pledge must be insured by an insurance company acceptable to the Bank, with a policy endorsed in favor of the Bank.

The Bank policy is to collect the collateral and use the funds to reduce or pay off debt. Assets acquired by debt collection the Bank shall not use for business purposes.

Fair value of collateral

In thousand dinars

	Credits and placements	
	30/06/2012	**31/12/2011**
I. Individual adjustment of value		
Mortgages	60,274,296	53,409,037
Deposits	111,403	75,131
Guarantees	3,054,740	637,778
Pledged securities	11,520,359	8,193,981
Hand pledge	13,621,412	11,343,456
Other	15,850,134	7,530,031
Total	**104,432,344**	**81,189,414**
II. Collective adjustment of value		
Mortgages	187,032,353	174,903,129
Deposits	3,217,331	2,684,368
Guarantees	14,669,879	14,856,109
Pledged securities	41,451,481	29,321,105
Hand pledge	21,964,533	21,980,106
Other	53,473,357	45,623,920
Total	**321,808,934**	**289,368,737**
III. Due but not adjusted placements		
Mortgages	2,059,554	1,519,846
Deposits	271,708	58,390
Guarantees	1,141	1,249
Pledged securities	15,826	495,893
Hand pledge	96,715	136,963
Other	3,465,012	751,232
Total	**5,909,956**	**2,963,573**
IV. Unmatured not adjusted placements		
Mortgages	167,080	314,175
Deposits	6,683	37,043
Guarantees	226	204
Pledged securities	1,305	14,970
Hand pledge	176,161	190,915
Other	150,493	833,652
Total	**501,948**	**1,390,959**
Total fair value	**432,653,182**	**374,912,683**

5.2. LIQUIDITY RISK

The Bank in its operations comply with the basic principles of liquidity, achieving sufficient level of funds to cover liabilities incurred in the short term, namely respects the principle of solvency by establishing the optimal financial leverage (the ratio between equity and liabilities) and the formation of sufficient level of liquidity reserves which do not threaten the achievement of the planned return on capital.

Liquidity risk, as the possibility of occurrence of certain negative events with adverse effects on the financial results and Bank equity, arises from the inability of the Bank to meet its due obligations. Liquidity risk may occur in the form of risk resources and market liquidity risk. Liquidity problem in terms of resources relates to the structure of liabilities and obligations, and is expressed through inadequate financial leverage, a significant share of unstable resources, short-term resources or their concentrations. On the other hand, liquidity risk is expressed through a deficit in reserves and difficulty or impossibility to obtain liquid funds at reasonable market prices.

The Bank has established appropriate organizational structure, which is made to clearly delineate process of undertaking liquidity risk from its management processes. The primary role in the management of liquidity risk is performed by the Liquidity Board and Asset and Liability Committee within their competencies, as well as other relevant committees, whose decisions may affect the Bank exposure to this risk.

In order to minimize liquidity risk the Bank:

- diversifies fund resources, by currencies and maturity;
- forms sufficient level of liquidity reserves;
- manages monetary funds;
- monitors future cash flows and liquidity on a daily basis;
- manages market resources;
- limits primary resources of credit risk that have the most significant impact on liquidity risk (exposure to banks to which free monetary funds are invested);
- defines and performs periodical tests of he Plan for liquidity management in crisis situations.

Process of liquidity risk management is carried out through the identification, measurement, mitigation, monitoring, control and reporting on liquidity risk.

Identification of liquidity risk means comprehensive and timely identification of the causes leading to occurrence of liquidity risk and implies determination of the current exposure to the liquidity risk, as well as the liquidity risk exposure based on new products and business activities.

Measurement, namely liquidity risk assessment is quantitative and/or qualitative assessment of identified liquidity risk, using the following methods:

- GAP analyses;
- Ratio analyses;
- Stress test.

Mitigation implies maintaining of liquidity risk at the level acceptable for the risk profile of the Bank, through defining of the limit system, which includes regulatory and internal limits and timely measures to reduce risk, as well as operations within these limits.

Control and monitoring of liquidity risk includes the process of compliance with the externally and internally set limits, as well as monitoring of defined measures for reduction of exposure to liquidity risk of the Bank. Liquidity risk control implies control at all levels of liquidity risk management as well as the independent control system which is implemented by organizational units responsible for internal audit and compliance monitoring.

Reporting on liquidity risk includes the system of internal and external reporting, performed on a daily basis and under established dynamics, in accordance with defined system.

The Bank harmonizes its business activities with the prescribed regulatory liquidity ratio on a daily basis. Regulatory defined limits for this indicator are: 0.8 calculated for a single working day; minimum 0.9 for no more than three consecutive working days, or at least one day as the average of all the working days in a month.

Regulatory prescribed liquidity indicator:

	30/06/2012	31/12/2011
Per day	2.76	2.91
Average for the period	2.59	2.25
Maximum for the period	3.39	3.40
Minimum for the period	1.89	1.34

During 2012 the liquidity indicator ranged considerably above defined limits.

Compliance with internally defined liquidity limits:

	Limits	30/06/2012	31/12/2011
GAP up to 1 month/Total assets	Max (10%)	7.85%	9.03%
Cumulative GAP up to 3 month/Total assets	Max (20%)	2.54%	2.06%

The Bank defined internal limits of the liquidity GAPs by maturity dates and significant currencies.

The Bank management believes that adequate diversification of the portfolio of deposits by number and type of depositors, as well as the past experience of the Bank, provide good pre-condition for the existence of a stable and long-term deposit base, namely on that basis no significant inflows are expected. The Bank, in addition, defined the appropriate Business plan, by which in the future, intends to make further diversification and the establishment of more stable deposit base and optimal capital and liabilities structure .

With the stability of the business activities from the liquidity aspect goes the fact that the Bank has sufficient level of liquidity reserves to respond to increased level of liquidity crisis, as evidenced by the results of stress testing and testing of the Plan for managing liquidity in crisis situations.

5.3. MARKET RISK

Market risk represents the possibility of incurring the adverse effects on the financial results and Bank equity due to changes in market variables and it includes interest rate risk in the Banking book, foreign currency risk for all business activities performed and the price risk in Trading book.

The Bank is exposed to the acceptable interest rate risk in the Banking book and foreign exchange risk, while price risk in terms of material significance is not especially considered in these Notes, although it manages that risk, considering that participation of Trading book in total business operations of the Bank on 30th June 2012 amounts to 0.05%.

The Bank has established appropriate organizational structure, by which is made clear delineation of processes of taking over market risks from the process of its management. Primary role in the process of market risk management is carried out by the Asset and Liability Committee as well as other relevant committees, whose decisions may affect the Bank exposure to this risk.

5.3.1. Interest rate risk in Banking book

The Bank is exposed to interest rate risk on positions in the Banking book, manifested through the possibility of occurrence of adverse effects on the financial result and Bank equity due to changes in interest rates.

The main objective of interest rate risk management is to maintain an acceptable level of interest rate risk exposure in terms of the impact on the financial results, by keeping adequate policy of maturity adjustment period of re-formation rates, compliance with the appropriate resources with placements according to the type of interest rate and maturity, as well as the projection of movements in the yield curve on foreign and domestic market. Primarily, the Bank manages the margin of internal yields through the cost of loans and deposits, focusing on the interest margin.

The Bank especially considers the impact of changes in interest rates and the structure of interest bearing assets and liabilities in terms of maturity, re-formation of interest rate and currency structure and manages their impact on the economic value of equity.

The process of interest rate risk management is carried out through identification, measurement, mitigation, monitoring, controlling and reporting on the interest rate risk.

Identification of the interest rate risk involves comprehensive and timely identifying the causes leading to risk occurrence and involves determining the current exposure and exposure to liquidity risk on the basis of new products and business activities.

Measurement, namely interest rate risk assessment is a quantitative and/or qualitative assessment of identified interest rate risk, using the following methods:

- GAP analyses;
- Ratio analyses;
- Duration;
- Economic value of equity (EVE);
- Stress test.

Mitigation of interest rate risk implies maintaining the risk at the level acceptable for the risk profile of the Bank. Mitigation of interest rate risk implies a process of defining the limit system for the Bank exposure to the interest rate risk and undertaking and implementing measures for mitigation of interest rate risk. Control and monitoring of interest rate risk includes the process of compliance with set up system of limits, as well as monitoring of defined measures for reduction of exposure to interest rate risk of the Bank. Liquidity risk control implies control at all levels of management as well as the independent control system which is implemented by authorities responsible for internal audit and compliance monitoring.

Reporting on the interest rate risk implies clearly determined internal reporting system for reporting to the relevant committees and the Bank management on interest rate risk management.

Internal limits are determined on the basis of internal reports about the interest rate GAP, which include all positions of the balance

Compliance with internally defined limits for interest rate risk:

	Limits	**30/06/2012**	**31/12/2011**
Relative GAP	Max 15%	(6.05%)	(7.23%)
Coefficient of disparity	0.75 – 1.25	0.93	0.91
EVE	Max 20%	11.00%	10.53%

In 2012 the interest rate risk indicators were moving within the internally defined limits.

The Bank also defines the internal limits of exposure to interest rate risk in order to limit the negative impact on the financial results and Bank equity. The impact on the financial result is limited to the period up to 1 year by the limits defined in terms of maturity and re-formation of interest rates on significant currencies. Impact on equity is limited by the maximum value of the economic value of equity.

The Bank management believes that adequate compliance of positions by the type of interest rate and the period of re-formation provides a good pre-condition for the existence of the required financial result while preserving the economic value of equity.

5.3.2. Foreign currency risk

The Bank is exposed to foreign currency risk, which is manifested through the possibility of occurrence of adverse effects on the financial results and equity due to changes in cross-currency relations, changes in the value of the domestic currency related to the foreign currencies or changes in the value of gold and other precious metals. All other positions are exposed to the foreign currency risk and included in the Banking book and the Trading book in foreign currency and gold, as well as the dinar positions indexed to foreign currency clause.

In order to minimize exposure to foreign currency risk the Bank diversifies the currency structure portfolio and currency structure of liabilities, matching open positions in individual currencies, while respecting the principles of maturity transformation of funds.

The Bank has established appropriate organizational structure, by which is made clear delineation of the process of taking over the foreign currency risk from its management processes. Primary role in the management of foreign currency risk is carried out by the Asset and liability Committee under its competencies, as well as other relevant committees, whose decisions may affect the Bank exposure to this risk.

The process of foreign currency risk management is carried out through identification, measurement, mitigation, monitoring, controlling and reporting on the foreign currency risk.

For identification of the foreign currency risk the Bank comprehensively and timely identifies the causes leading to occurrence of the foreign currency risk and involves determining the current exposure to foreign currency risk and exposure to foreign currency risk on the basis of new products and business activities, at the positions kept in the Banking book and Trading book.

Measurement, namely foreign currency risk assessment, is an quantitative and/or qualitative assessment of identified foreign currency risk, using the following methods:

- GAP analyses and indicator of foreign currency risk;
- VaR (Value at Risk);
- Stress test;
- Back-testing.

Mitigation of foreign currency risk implies maintaining the risk at the level acceptable for the risk profile of the Bank through setting up a transparent limit system for defining measures for mitigation of foreign currency risk.

Control and monitoring of foreign currency risk includes the process of monitoring and supervision of compliance of positions with internally and externally defined limits, as well as monitoring defined and undertaken measures. By continual monitoring and control of foreign currency risk during one day, it is ensured undertaking of timely measures in order to sustain foreign currency risk within the frame of defined limits. Foreign currency risk control implies control at all levels of management as well as the independent control system which is implemented by organizational units responsible for internal audit and compliance monitoring.

Reporting on the foreign currency risk implies system for internal and external reporting conducted on daily basis and under determined dynamics, in accordance with defined system.

The Bank harmonizes its business activities with regulatory prescribed indicator of foreign currency risk, which represent the relation between total opened foreign currency positions in gold related to the regulatory capital.

Survey of total risk foreign currency position and regulatory defined indicator of foreign currency risk:

	30/06/2012	31/12/2011
Total risk foreign currency position	113,726	452,801
Indicator of foreign currency position	0.42%	1.68%
Regulatory prescribed limits	20%	20%

In 2012 the Bank had all the indicators of business operations complied with the standard values.

5.4. OPERATIONAL RISK

Operational risk is the risk of possible adverse effects on the financial results and Bank equity due to failure (intentional and unintentional) caused by employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to the occurrence of unforeseen external events.

Operational risk is defined as an event occurring as a result of inadequate or failed internal processes, procedures and systems of employees and system or systemic and other external events, internal and external fraud, employment practices and workplace safety, claims from clients, products distribution, fines and penalties for violations, damage to material property, disruptions in business operations and system failures and process management.

The Bank monitors operational risk events also under the following lines of business: financing economic entities, trade and sales, brokerage operations with natural persons, banking transactions with the economic entities, banking transactions with natural persons, payment operations, agency services and asset management.

The process of operational risk management is an integral part of the Bank activities implemented at all levels and allowing the identification, measurement, mitigation, monitoring and control, and reporting on operational risks prior to their implementation and in continuity according with regulatory requirements and deadlines. The current process relies on reliable methods of measuring exposure to operational risks, database of operational losses, updated reporting and control system.

The Bank monitors the events of operational risks and manages operational risk on a daily basis. In order to effectively monitor operational risk in each organizational unit of the Bank, employees for operational risks have been appointed, which are responsible for the accuracy and update of information on all operational risk events, as well as for recording all occurred events into database of operational risks.

Measurement, namely evaluation of operational risk of the Bank is carried out through quantitative and/or qualitative assessment of the identified operational risks. The Bank implements measurement of its operational risk exposure through recording the events and self-assessment. Self-assessment involves assessing the risk exposure by the organizational units in accordance with a map of the identified operational risk by measuring the possible range, the importance of business and the frequency of events that can cause losses, identifying the level of control that the business areas have over these risks and measures for improvement.

The Bank can not eliminate all operational risks, but through introduction of a rigorous control framework, monitoring and responding to potential risks it is able to manage these risks. Basic measure for protection against operational risk is control, which includes effective separation of duties, implementation and respect of the "four eyes" principle, consistent application of internal procedures, training of employees and special supervision by the internal audit.

Through reliable reporting on the implementation of measures for mitigation of operational risks, the Bank has established a system for monitoring activities undertaken by the organizational units of the Bank in order to reduce operational risks and preventive response to the events of operational risk which are emerging.

In order to regain recovered information technology system, in the event of termination of business activities, the Bank has adopted the Recovery plan for activities in case of disasters.

5.5. BANK INVESTMENT RISKS

The Bank investment risk is the risk investing in other legal entities and fixed assets. Investment of the Bank in a single person who is not a person in the financial sector may be up to 10% of its capital, while this investment means an investment by which the Bank acquires a share or stocks of a person other than the person in the financial sector. Total investment of the Bank in non-financial sector entities and in fixed assets can be up to 60% of the Bank capital, provided that this limitation shall not apply to the acquisition of shares for the purpose of their resale within six months from the date of acquisition.

5.6. EXPOSURE RISK

Large exposure of the Bank to a single person or group of related persons, including persons related to the Bank, is the exposure which amounts over 10% of its capital.

In its operations, the Bank takes into account compliance with regulatory defined exposure limits:

- Exposure to a single person or group of related persons shall not be greater than 25% of the Bank capital.
- Exposure to a person related with the Bank shall not be greater than 5% of its capital, and the total exposure to persons related to the Bank shall not exceed 20% of the Bank capital.
- The sum of all large exposures of the Bank may not exceed 400% of the Bank capital.

Exposure to a single person or a group of related persons, as well as exposure to persons related to the Bank was within the prescribed limits.

5.7. COUNTRY RISK

Country risk is the risk related with the country of origin of the person to whom the Bank is exposed to, or the risk of possible occurrence of adverse effects on the financial results and Bank equity due to inability of the Bank to collect receivables from debtors for reasons that are result of political, economic and social situation in the country of origin of the debtor. Country risk includes the following risks:

- political and economic risk, which means the probability of realization of loss as a result of inability of the Bank to collect receivables due to the limitations established by acts of government and other authorities of the country of origin of the debtor, as well as general and systemic conditions in that country;
- transfer risk, which means the probability of realization of loss due to inability to collect receivables denominated in a currency other than the currency of the debtor's country of origin, due to restrictions on payment obligations to creditors from other countries in a particular currency as determined by state and other authority's laws of the debtor's country.

The Bank manages the country risk at the level of individual placements and at the portfolio level. Measurement and control of individual placement exposure to country risk, the Bank performs by determining the internal rating category of the debtor's country, and based on the rating assigned by mutually recognized rating agencies and by determining exposure limits as a percentage of the Bank equity, depending on the category of internal country rating. Measurement and control of exposure of portfolio to country risk, the Bank performs on the basis of grouping according to the debtor's country degree of risk.

5.8. CAPITAL MANAGEMENT

The Bank has established a risk management system in accordance with the extent and the structure of its business activities, and the objective of capital management is undisturbed implementation of the goals of the Bank business policy.

Calculation of capital and adequacy indicators of that capital is compliant with Basel II standards.

Basic goals for capital management are:
- preservation of minimum regulatory requirements;
- respect of the minimum regulatory capital adequacy indicator (12%);
- maintaining confidence in the security and stability of business operations;
- achievement of business and financial plans;
- supporting the expected growth in lending operations;
- enabling optimum of future resources of funds and their use;
- realization of dividend policy.

In 2012 the Bank adequately managed the capital, maintaining a stable capital base in order to:

- ensure business continuity during unlimited period in foreseen future;
- preservation of optimal capital structure;
- minimizing the cost of capital;
- provide protection from risk.

The Bank operates in accordance with regulatory limits:

- Minimum amount of the capital is EUR 10 million in dinar equivalent;
- Minimum indicator of capital adequacy is 12%.

The Bank measures the capital adequacy methodology with respect to regulatory methodology which is in compliance with Basel II standards, by using the standardized approach.

Indicator of capital adequacy In thousand dinars

	30/06/2012	31/12/2011
Capital assets	38,379,284	41,749,118
Supplementary assets	6,475,614	5,852,703
Items deductible from assets	(17,544,981)	(20,655.322)
Capital	27,309,917	26,946,499
Credit risk-weighed assets	161,027,843	142,142,319
Exposure to operational risk	15,196,808	14,105,358
Exposure to foreign currency risk	-	-
Indicator of capital adequacy	**15.50%**	**17.25%**

6. EVENTS AFTER THE BALANCE SHEET AS AT 30 JUNE 2012

There has not been significant events between the balance sheet on 30.06.2012 and the date when Notes has been completed.

7. EXCHANGE RATES

The exchange rates set at the inter-bank meeting of the foreign exchange market, applied to restatement of the balance sheet items into the dinar (RSD), were the following for some major currencies on 30 June 2012 and on 31 December 2011:

Currencies	Official NBS exchange rate	
	2012.	2011.
USD	92,1476	80,8662
EUR	115,8203	104,6409
CHF	96,3724	85,9121

Done in Belgrade,
on 31 July 2012

Persons responsible
for financial statements preparation

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STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2012 to 30/06/2012 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 and Audit, 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

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