KOMERCIJALNA BANKA

Meni najbliža

REPORT

OF THE BANK FOR THE THIRD QUARTER 2017

BELGRADE, OCTOBER 2017

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Quarterly report for the third quarter 2017 is a true overview of progress and operating results of KOMERCIJALNA BANKA AD Beograd that were realised in the third quarter of 2017, as well as in the first nine months of 2017.

REPORT ON BANK'S OPERATIONS

FOR THE THIRD QUARTER 2017

BELGRADE, OCTOBER 2017

1. OVERVIEW OF KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 01.01.2017 TO 30.09.2017

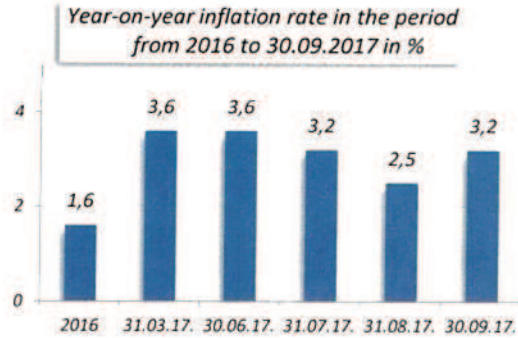
1.1. Performance Indicators of the Bank

ITEM	30.09.17.	31.08.17.	31.07.17.	30.06.17.	31.03.17.	2016.	2015.
BALANCE SHEET (in 000 RSD)							
Balance sheet assets	374.458.967	377.706.215	380.791.560	373.998.539	381.990.129	400.017.469	393.439.874
Off-balance-sheet transactions	450.084.157	454.118.108	462.487.741	473.894.417	497.926.215	520.370.274	580.407.210
RETAIL							
Loans[1]	80.649.442	79.920.290	79.391.583	78.805.620	77.347.207	75.522.465	70.784.957
Deposits[2]	231.126.237	230.425.496	232.025.498	230.883.872	234.156.293	231.312.395	218.836.847
CORPORATE							
Loans	65.230.751	66.204.698	66.718.585	62.683.610	68.216.087	74.083.897	89.204.275
Deposits	50.736.431	55.209.201	55.873.249	52.263.384	57.000.776	78.300.568	55.503.896
ITEM	30.09.17.	31.08.17.	31.07.17.	30.06.17.	31.03.17.	2016.	2015.
PROFIT AND LOSS ACCOUNT (in 000 RSD)							
Profit/loss before tax	5.698.102	5.555.115	5.124.853	4.420.162	2.482.832	-8.377.636	-6.175.885
Net interest income	9.442.181	8.423.380	7.412.165	6.388.834	3.255.754	13.462.734	13.768.082
Net fee income	3.756.044	3.331.408	2.898.816	2.462.778	1.165.502	4.817.314	4.899.947
PROFITABILITY RATIOS							
ROA	1,99%	2,18%	2,30%	2,31%	2,55%	-2,05%	-1,56%
ROE – on share capital	18,98%	20,81%	21,94%	22,08%	24,81%	-20,93%	-15,43%
ROE – on total capital	12,80%	14,12%	14,98%	15,19%	17,40%	-13,86%	-8,99%
Net interest margin on total assets	3,30%	3,31%	3,32%	3,34%	3,34%	3,30%	3,48%
Cost / income ratio	60,21%	60,21%	60,14%	60,22%	59,92%	60,65%	57,85%
Operating expenses (000 RSD)[3]	7.946.053	7.078.106	6.200.974	5.330.330	2.649.309	11.086.858	10.799.510
Net income/expense for indirect loan write-off and provisions (in 000 RSD)	-216.936	232.648	300.952	227.327	72.775	-14.907.539	-13.008.527
FX risk ratio	5,41%	5,00%	4,56%	4,43%	5,52%	2,96%	10,60%
Liquidity ratio	5,41	5,17	5,06	5,64	2,98	2,86	2,73
Operating cash flows	8.055.953	7.382.098	6.439.543	5.527.032	3.345.570	7.987.047	7.819.613
ITEM	30.09.17.	31.08.17.	31.07.17.	30.06.17.	31.03.17.	2016.	2015.
LOANS/DEPOSITS RATIO							
Gross loans/deposits	60,93%	61,48%	62,22%	61,29%	61,33%	58,74%	67,43%
Net loans/deposits	54,03%	53,44%	54,21%	53,10%	53,20%	50,70%	57,19%
CAPITAL (in 000 RSD)	61.960.568	61.786.157	61.360.168	60.669.270	57.830.823	55.424.302	62.838.046
Capital Adequacy	27,19%	28,12%	25,59%	26,99%	26,69%	26,97%	22,75%
Number of employees	2.783	2.779	2.775	2.764	2.823	2.858	2.877
Assets per employee (in 000 EUR)	1.127	1.140	1.086	1.120	1.092	1.134	1.125
Assets per employee (in 000 RSD)	134.552	135.914	130.721	135.311	135.314	139.964	136.779

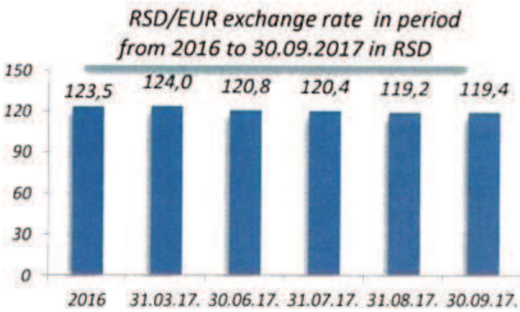
1 Loans (retail and corporate) do not include other investment and receivables
2 Deposits do not include other liabilities and funds received through credit lines
3 Operating expenses include cost of salaries, tangible and intangible operating expenses.

2. MACROECONOMIC OPERATING CONDITIONS IN THE PERIOD FROM 01.01.2017 TO 30.09.2017

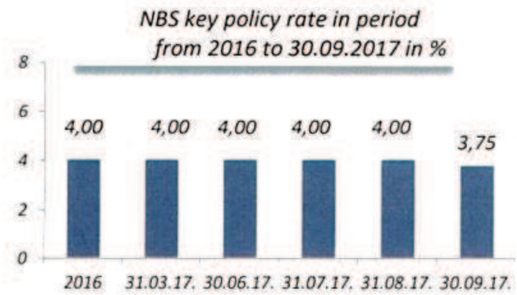
The year-on-year inflation continued the trend within the target limit (3,0±1,5%), in 2017. According to the NBS, year-on-year inflation was expected to return to the level in July in September, amounting to 3.2%, after declining in August due to the high base effect of meat prices. Core inflation (measured by the change in consumer prices for the exclusion of food, energy, alcohol and cigarettes) in September amounted to 1.5% yoy, which is unchanged compared to the previous month. *



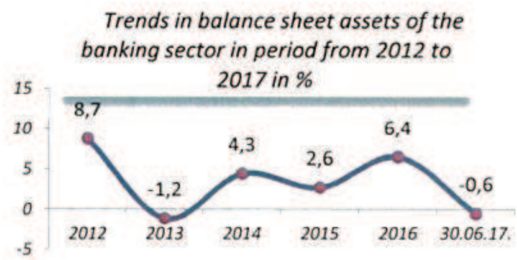
In the third qaurter of the current year, Dinar appreciated against EURO. Dinar exchange rate is stabilised at the value of about RSD 119 for one EURO. At the end of Q3 2017 in terms of exchange rate, dinar strengthened compared to the end of 2016 by 3.4%.



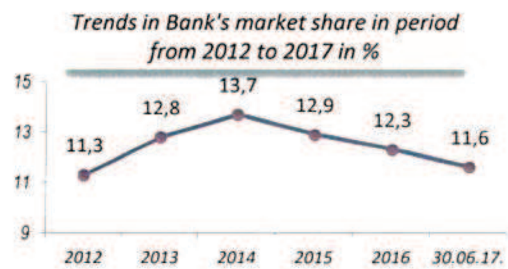
At the beginning of September the NBS reduced key policy rate to 3.75%. According to the NBS announcement with such a decision, the Executive Board had in mind that the current inflation was lower, and that the mid-term inflation projection in August was lower than the May projection, both for this and the next year. *



The banking sector in the Republic of Serbia recorded a decline of balances sheet assets in Q2 of the current year relative to last year by 0.6%. In April of the current year Alfa banka ad changed its business name to Jubanka ad, while in June Marfin banka ad changed the business name to Ekspobank ad.



Continued prudent credit portfolio management and reduction of approved loans has affected the Bank at the end of Q2 2017 in terms of its reducing the share in total balance sheet assets of the banking sector to the level of 11.6% (-0.7 pp).



* NBS announcement on RKS from 7.9.2017 and the inflation announcement of October 12.10.2017

3. KEY PERFORMANCE INDICATORS OF THE BANK IN THE PERIOD FROM 01.01.2017 TO 30.09.2017

ITEM	30.09.17.	31.08.17.	31.07.17.	30.06.17.	31.03.17.	2016.	2015.
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Loans	65.230.751	66.204.698	66.718.585	62.683.610	68.216.087	74.083.897	89.204.275
Deposits	50.736.431	55.209.201	55.873.249	52.263.384	57.000.776	78.300.568	55.503.898

As at 30.09.2017 balance sheet assets of the Bank amount to RSD 374.459,0 million and are reduced by RSD 25.558,5 million or 6.4% compared to the end of 2016.

High liquidity and active management of the structure of assets and liabilities motivated the Bank to return part of the credit lines in 2017 before the deadline (which is a decrease compared to the beginning of the year in the amount of 4,107.9 million dinars). At the end of September 2017, the total amount of funds received in the form of credit lines amounted to 8,876.3 million dinars, which accounts for 2.4% of the total liabilities of the Bank.

In the same period the Bank recorded a decline of deposits (other liabilities and credit lines excluded) amounting to RSD 27.978,2 million, or 8.9%. In the structure of the stated change, corporate deposits are reduced by RSD 27.564,1 million, while retail deposits are reduced in the amount of RSD 186,2 million. The indicated changes include also the effect of dinar appreciation against the EURO (3.4%) and against the Swiss franc (10.1%).

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PROFIT AND LOSS ACCOUNT (000 RSD))							
Profit/loss before tax	5.698.102	5.555.115	5.124.853	4.420.162	2.482.832	-8.377.636	-6.175.885
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Net fee income	3.756.044	3.331.408	2.898.816	2.462.778	1.165.502	4.817.314	4.899.947
PROFITABILITY RATIOS							
ROE	1,99%	2,18%	2,30%	2,31%	2,55%	-2,05%	-1,56%
ROE – on share capital	18,98%	20,81%	21,94%	22,08%	24,81%	-20,93%	-15,43%
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Net interest margin on total assets	3,30%	3,31%	3,32%	3,34%	3,34%	3,30%	3,48%
Cost / income ratio	60,21%	60,21%	60,14%	60,22%	59,92%	60,65%	57,85%
Operating expenses (000 RSD)[4]	7.946.053	7.078.106	6.200.974	5.330.330	2.649.309	11.086.858	10.799.510
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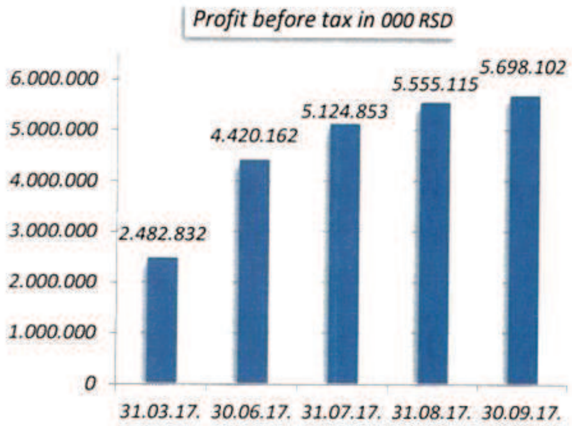
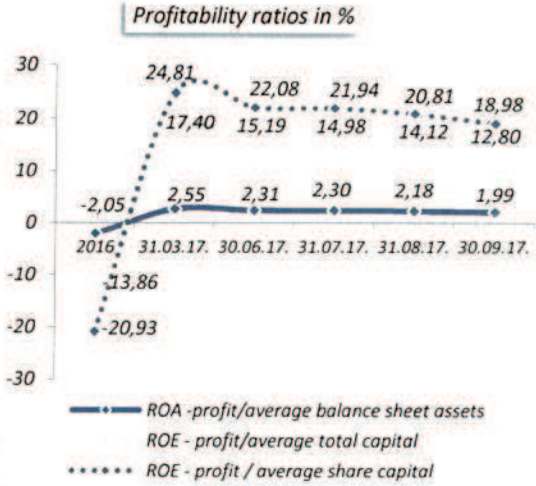
FX risk ratio	5,41%	5,00%	4,56%	4,43%	5,52%	2,96%	10,60%
Liquidity ratio	5,41	5,17	5,06	5,64	2,98	2,86	2,73
Operating cash flows	8.055.953	7.382.098	6.439.543	5.527.032	3.345.570	7.987.047	7.819.613

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





In the first nine months of this year the Bank made a profit, compared to the same period last year when it recorded a negative result. The realised profit of the Bank before tax in period from 01.01 to 30.09.2017 amounts to RSD 5.698,1 million, compared to the same period last year when a loss was recorded of RSD 1.779,7 million. The realised change in Bank's result, in the first nine months of 2017, provided for return on total capital of 12.80%, and/or return on share capital of 18.98%.

The trend in profit in the first nine months of 2017, relative to the same period last year, was impacted by realisation of the court dispute in favour of the Bank, during the first quarter, in the amount of RSD 566,4 million. Also, net expenses on impairment of financial assets amounted to RSD 217.0 million, unlike the same period last year when the expenditures amounted to RSD 7,385.5 million. Of the positive effects it is important to emphasise the increase in net fee and commission income. On such basis, in the reporting period, net income was realized amounting to RSD 3.756,0 million, where in the same period last year such realization amounted to RSD 3.589,0 million. Also recorded is a growth of net gain from financial assets available for sale in the amount of RSD 43,9 million, whereas in the same period last year, on the basis of this balance sheet item, a net loss was recorded in the amount of RSD 53,7 million. It is also important to highlight a net profit from financial assets held/intended for trade in the amount of RSD 17,0 million.

Due to planned withdrawal of certain deposits and reduction of credit lines in the first nine months of 2017, the assets per employee in the Bank are reduced from RSD 140,0 million (31.12.2016), to amount of RSD 134,6 million at the end of Q3 2017.

At the end of the third quarter of the current year „Cost income ratio" (CIR) stands at 60.21%, while at the end of 2016 it was 60.65%.

4. BALANCE SHEET AS OF 30.09.2017

4.1. The Bank's Assets as of 30.09.2017

(In 000 RSD)

No.	BALANCE-SHEET ITEM	30.09.2017.	31.12.2016.	INDEX
1	2	3	4	5=3/4
1.	Cash and assets with the central bank	54.058.982	55.153.209	98,02
2.	Pledged financial assets	-	-	-
3.	Financial assets at fair value through P&L intended for trade	4.193.696	242.920	1.726,37
4.	Financial assets initially recognised at fair value through P&L	-	-	-
5.	Financial assets available for sale	117.735.382	136.123.853	86,49
6.	Financial assets held to maturity	-	-	-
7.	Loans and receivables from banks and other financial organisations	33.494.992	40.601.413	82,50
8.	Loans and receivables from customers	146.292.659	150.411.409	97,26
9.	Change in fair value of hedged items	-	-	-
10.	Receivables from financial derivatives intended for hedging	-	-	-
11.	Investment in affiliations and joint ventures	-	-	-
12.	Investment in subsidiaries	2.611.859	2.611.859	100,00
13.	Intangible assets	334.463	362.507	92,26
14.	Property, plant and equipment	5.498.961	5.856.458	93,90
15.	Investment properties	2.039.889	2.217.816	91,98
16.	Current tax assets	-	-	-
17.	Deferred tax assets	1.768.775	-	-
18.	Fixed assets intended for sale and assets from discontinued operations	331.008	183.170	180,71
19.	Other assets	6.098.301	6.252.855	97,53
	TOTAL ASSETS (from A1 to A19)	**374.458.967**	**400.017.469**	93,61

Bank's balance sheet assets at the end of the third quarter of 2017 are reduced in comparison to the end of 2016 by RSD 25.558,5 million, or 6.4%.
In the structure of reported balance sheet items dominant is the increase of financial assets at fair value through P&L intended for trade, which increased at the end of Q3 2017 by RSD 3.950,8 million, or 1.626,4%. The stated change is a result of reinvestment of part of matured securities in dinars available for sale–T-bills of the Republic of Serbia (RSD 6.795,0 million) into foreign currency securities intended for trade – T-bonds of the Republic of Serbia.

Total balance of financial assets available for sale records a reduction equalling RSD 18.388,5 million (-13.5%) in comparison to the end of the last year.

Loans and receivables from banks and other financial organisations (according to new balance sheet structure) are decreased by RSD 7.106,4 million, or 17.5%, and loans and receivables from customers by RSD 4.118,8 million. As at 30.09.2017 total loans and receivables from customers and banks amount to RSD 179.787,7 million, which accounts for 48.0% of total balance sheet assets of the Bank.

During the first nine months of the current year, item cash and assets with the central bank has recorded a decline amounting to RSD 1.094,2 million, or 2.0%. Reduction of the stated item came mainly as a result of decrease in balance on the drawing account by RSD 2.782,4 million and of cash in hand in dinars by RSD 907,2 million. Other items (cash in hand in foreign currency and required reserve in foreign currency) are reduced by RSD 1.126,5 million. Other foreign currency cash assets recorded an increase in dinar equivalent of RSD 3.721,9 million.

4.2. Liabilities of the Bank as of 30.09.2017

(In 000 RSD)

No.	BALANCE-SHEET ITEM	30.09.2017.	31.12.2016.	INDEX
1	2	3	4	5=3/4
1.	Financial liabilities at fair value through P&L intended for trade	-	-	-
2.	Financial liabilities initially recognised at fair value through P&L	-	-	-
3.	Liabilities from financial derivatives intended for hedging	-	-	-
4.	Deposits and other liabilities to banks, other financial organisations and the central bank	5.523.420	7.834.962	70,50
5.	Deposits and other liabilities to other customers	292.771.368	322.621.360	90,75
6.	Change in fair value of hedged items	-	-	-
7.	Issued treasury/own securities and other borrowed assets	-	-	-
8.	Subordinated liabilities	6.046.400	6.178.390	97,86
9.	Provisions	1.196.815	1.787.294	66,96
10.	Liabilities for assets intended for sale and assets from discontinued operations	-	-	-
11.	Current tax liabilities	-	-	-
12.	Deferred tax liabilities	576.374	23.592	2.443,09
13.	Other commitments	6.384.022	6.147.569	103,85
	TOTAL COMMITMENTS (from L1 to L13)	**312.498.399**	**344.593.167**	90,69
14.	**CAPITAL**			-
15.	Share capital	40.034.550	40.034.550	100,00
16.	Treasury/own shares	-	-	-
17.	Profit	6.933.915	349.698	1.982,83
18.	Loss	-	8.063.183	-
19.	Reserves	14.992.103	23.103.237	64,89
20.	Unrealised losses	-	-	-
21.	Non-controlling equity stakes	-	-	-
22.	**TOTAL CAPITAL (from L15 to L21)**	**61.960.568**	**55.424.302**	111,79
	TOTAL LIABILITIES (from L1 to L21)	**374.458.967**	**400.017.469**	93,61

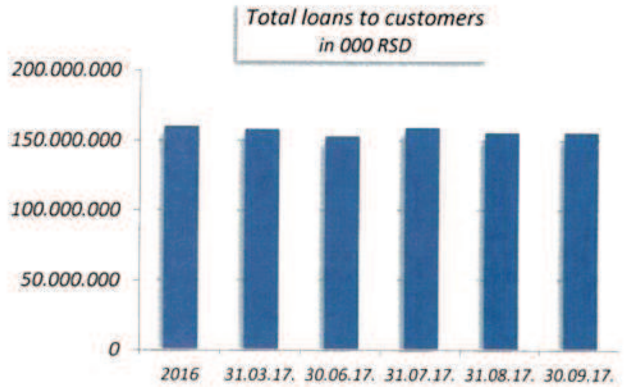
Total commitments of the Bank at the end of the third quarter of 2017 amount to RSD 312.498,4 million and account for 83.5% of total liabilities (31.12.2016: 86.1%). At the same time, total capital amounting to RSD 61.960,6 million accounts for 16.6% (31.12.2016: 13.9%) of total liabilities. Total commitments are reduced in comparison to the end of the last year by RSD 32.094,8 million, or 9.3%, while total capital has increased by RSD 6.536,3 million, or 11.8%.

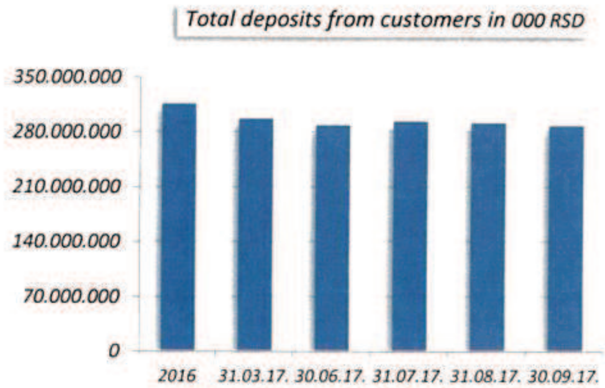
Item „Deposits and other liabilities to other customers" has decreased in the reporting period by RSD 29.850,0 million, or 9.3%, while the item „Deposits and other liabilities to banks, other financial organisations and the central bank" has decreased in comparison to the end of 2016 by RSD 2.311,5 million, or 29.5%. The balance of other commitments has increased by RSD 236,5 million, or 3.9%. Subordinated liabilities, with maturity in December 2017, in the amount of EUR 50,0 million were drawn at the end of 2011 in order to increase the regulatory capital of the Bank. At the end of the third quarter, compared to 2016, the balance of subordinated liabilities has been decreased on the basis of exchange rate differentials by RSD 132,0 million.

In the first nine months of 2017, foreign credit lines have declined in net dinar equivalent of RSD 4.107,9 million and so the balance of dinar equivalent of the subject liabilities, at the end of Q3 of the current year, amounts to RSD 8.876,3 million.

In structure of balance sheet liabilities total deposits and other liabilities related to banks and customers amount to RSD 298.294,8 million, thus accounting for 79.7% of total balance sheet liabilities, whereby it has recorded a decrease in comparison to the end of the last year in the amount of RSD 32.161,5 million, or 9.7%.

4.3. Loans to Customers and Deposits from Customers as of 30.09.2017





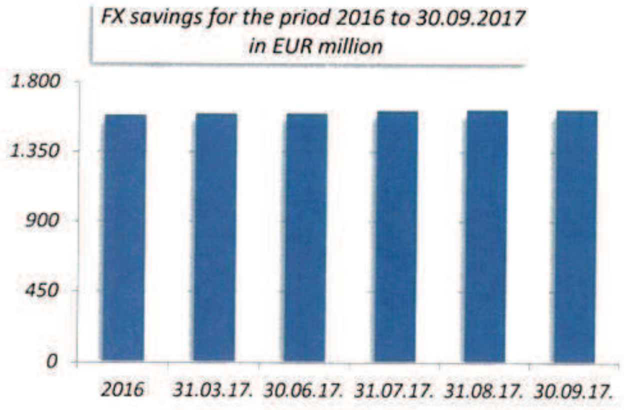
The most important category of balance sheet assets, loans to customers (other loans and receivables excluded), recorded a decrease of RSD 4.584,6 million observed since the beginning of the current year. The level of approved loans to customers, at the end of 3Q 2017, is considerably impacted by retail loans, which, at the end of September 2017 reached the amount of RSD 80.649,4 million, which represents a growth of 6.8%, while corporate loans have decreased by RSD 8.853,2 million, or 12.0%. Loans to banks and other financial organisations have recorded a drop of RSD 858,4 million, or 8.1%. Total loans to banks, other financial organisations and customers, at the end of 3Q amount to RSD 155.651,4 million and are reduced in comparison to the end of last year by 2.9%.

(In 000 RSD)

No.	ITEM	BALANCE AS OF 30.09.2017	BALANCE AS OF 31.12.2016	INDEX
1	2	3	4	5= (3:4)*100
I	LOANS TO CUSTOMERS (1.+2.+3.)	**155.651.396**	**160.235.984**	97,14
1.	Corporate	65.230.751	74.083.897	88,05
2.	Retail	80.649.442	75.522.465	106,79
3.	Banks and financial organisations	9.771.203	10.629.623	91,92
II	DEPOSITS FROM CUSTOMERS (1.+2.+3.)	**288.073.193**	**316.051.384**	91,15
1.	Corporate	50.736.431	78.300.568	64,80
2.	Retail	231.126.237	231.312.395	99,92
3.	Banks and financial organisations	6.210.526	6.438.421	96,46

NOTE: loans to customers and received deposits according to the previous balance sheet structure

Change in deposits of banks, other financial organisations and customers (other liabilities and credit lines excluded) in the third quarter of 2017, came largely as a result of decrease in corporate deposits (RSD 27.564,1 million), decrease in deposits from banks and other financial organisations (equivalent RSD 227,9 million), and a decline in retail deposits (equivalent RSD 186,2 million) which is primarily a result of the appreciation of the dinar.



Enjoying the reputation of a safe and stable bank in the Serbian market, the Bank managed to increase foreign currency savings deposits by 38.7 million euros or 2.4% in the observed period.

Despite the lowering of deposit interest rates both for the banking sector and for the Bank, the volume of foreign currency savings in the Bank increased in the first nine months of 2017 and reached a sum of EUR 1,629.2 million.

Trust of the savers enabled the Bank to maintain the one of the leading position in the banking sector of the Republic of Serbia by the volume of foreign currency savings, image and recognisability

4.4. Off Balance Sheet Items as of 30.09.2017

(000 RSD)

No	DESCRIPTION OF BS ITEM	BALANCE AS OF 30.09.2017.	BALANCE AS OF 31.12.2016.	INDEX
1	2	3	4	5=(3:4)*100
1.	ACCOUNTS IN THE NAME AND ON BEHALF OF THIRD PARTIES	4.256.954	4.418.079	96,35
2.	ASSUMED FUTURE LIABILITIES	33.630.857	32.543.235	103,34
3.	RECEIVED GUARANTEES FOR FUTURE LIABILITIES	0	0	-
4.	DERIVATIVES	0	0	-
5.	OTHER OFF BALANCE ITEMS	412.196.346	483.408.961	85,27
	TOTAL	**450.084.157**	**520.370.275**	86,49

The total off-balance sheet assets of the Bank decreased by 70,286.1 million dinars compared to the end of the previous year. On 30.09.2017, the assumed future liabilities amount to a total of 33,630.9 million dinars, an increase of 1,087.6 million dinars or 3.3% compared to the end of the previous year, mainly due to the increase in the assumed irrevocable liabilities for undisbursed framework loans with a currency clause (4,948.6 million dinar or 38.4%). Other off-balance sheet items decreased by RSD 71,212.6 million, or 14.7%. The largest part of this amount refers to the reduction:

-off-balance sheet records based on received material security and other collateral (decrease by 45,075.1 million dinars, partly due to the new method of registering mortgages),

-of nominal value of securities, mainly due to maturity or sale of debt securities (decrease of 19,800.5 million dinars),

-investments in securities by repo transactions (decrease of RSD 11,000.0 million).

From the positions that have increased, we highlight the transfer from the balance sheet into off-balance sheet records of loans that are completely impaired in the amount of 6,122.1 million dinars.

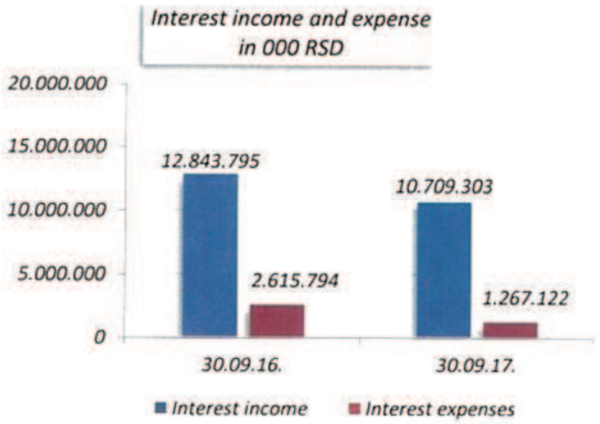
5. PROFIT&LOSS FOR THE PERIOD FROM 01.01 TO 30.09.2017

(000 RSD)

NO	DESCRIPTION OF BS ITEM	30.09.2017.	30.09.2016.	INDEX
1	2	3	4	5=(3:4)*100
	INCOME AND EXPENSES OF REGULAR BUSINESS			
1.1.	Interest income	10.709.303	12.843.795	83,38
1.2.	Interest expense	1.267.122	2.615.794	48,44
1.	**Net income / interest expense**	**9.442.181**	**10.228.001**	92,32
2.1.	Fee and commission income	4.911.470	4.570.873	107,45
2.2.	Fee and commission expense	1.155.426	981.921	117,67
2.	**Net income / expenses on fees and commissions**	**3.756.044**	**3.588.952**	104,66
3.	Net gain / loss on financial assets held for trading	63.793	46.748	136,46
4.	Net profit / loss based on risk protection	-	-	-
5.	Net gain / loss on financial assets initially recognized at fair value through profit and loss	-	-	-
6.	Net gain / loss on the basis of available-for-sale financial assets	43.886	-53.675	-81,76
7.	Net income / expense from exchange rate differences and effects of contracted currency clause	-30.219	-5.492	550,24
8.	Net gain / loss from investments in subsidiaries and joint ventures	306	5.143	-
9.	Other operating income	815.915	215.929	377,86
10.	Net income / expense from impairment of financial assets and credit risk bearing off-balance sheet items	-216.936	-7.385.488	2,94
11.	**TOTAL NET OPERATING INCOME**	**13.874.970**	**6.640.118**	208,96
12.	**TOTAL NET OPERATING EXPENSES**	-	-	-
13.	Salaries, wages and other personal expenses	3.290.095	3.237.684	101,62
14.	Depreciation costs	428.792	515.030	83,26
15.	Other expenses	4.457.981	4.667.106	95,52
16.	**PROFIT BEFORE TAXATION**	**5.698.102**		
17.	**LOSS BEFORE TAXATION**		**1.779.702**	
18.	Income tax			
19.	Profit from deferred taxes	1.235.813		
20.	Loss on deferred tax			
21.	**PROFIT AFTER TAXATION**	**6.933.915**		
22.	**LOSS AFTER TAXATION**		**1.779.702**	
23.	Net profit from discontinued operations			
24.	Net loss from discontinued operations			
25.	**PERIOD RESULT - PROFIT**	**6.933.915**		
26.	**PERIOD RESULT - LOSS**		**1.779.702**	
27.	Profit of to the parent entity			
28.	Profit of shareholders with no controlling rights			
29.	Loss of the parent entity			
30.	Loss of shareholder with no controlling rights			
31.	Earnings per share			
32.	Basic earnings per share			
33.	Reduced (diluted) earnings per share			

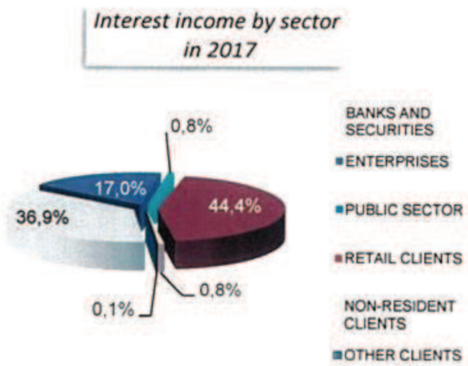
Based on the conclusion of the Board of Directors of the Bank and analysis of the possibilities for using the tax benefits prescribed by the Law on Corporate Profit Tax and planned profit determined by the Strategy and the Business Plan of the Bank for the period 2017-2019, at the end of the second quarter of this year, deferred tax assets on the basis of part of tax losses of the previous years in the amount of RSD 1,235.8 million has been entered into accounting books. This book entry increased the profit from regular operations (RSD 5,698.1 million) by the amount of the gain from the created deferred tax assets referred to above, after which the result of the period - the total profit at the end of the third quarter of this year amounted to 6,933.9 million dinars.

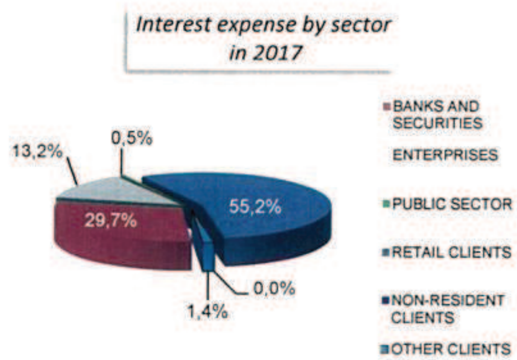
5.1. Interest income and expenses



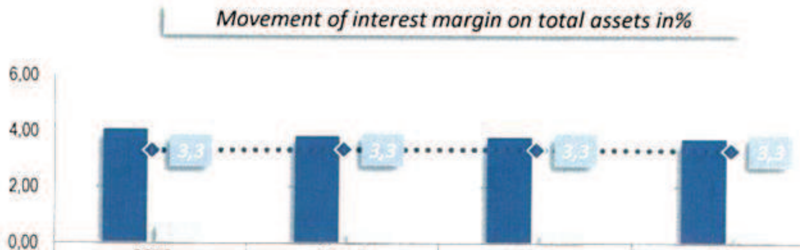
Profit on the basis of interest amounts to 9,442.2 million dinars, which in relation to the same period last year represents a decrease of 7.7%.

Compared to the end of the third quarter of last year, interest income decreased by RSD 2,134.5 million or 16.6%, while interest expenses decreased by RSD 1,318.7 million or 51.6.





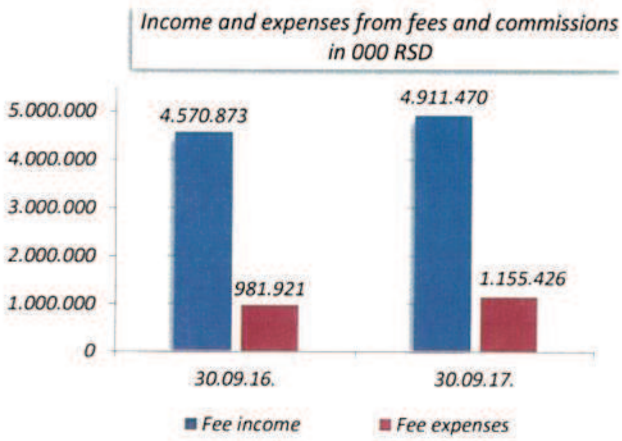
Within the interest income, the highest share is the interest income for retail transactions (4,758.6 million dinars or 44.4%). Within the interest expense, interest rates on retail deposits are also dominant (RSD 699.1 million or 55.2%), which is largely the result of interest expense on the collected retail foreign currency savings.



	2016	March	June	Sept
Average interest receivable	4,1	3,8	3,8	3,7
Average interest payable	0,8	0,5	0,5	0,4
Interest margin	3,3	3,3	3,3	3,3

The average rate of interest receivable on total assets at the end of the third quarter of 2017 was 3.7%, and the average rate of interest payable on the total liability was 0.4%, so the interest margin of the Bank in the third quarter of 2017 was 3.3%, retaining an unchanged value in the observed period.

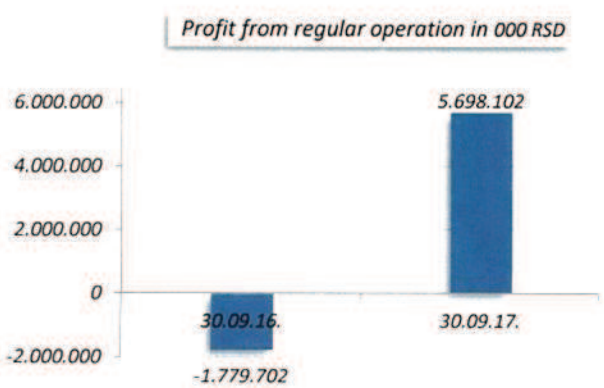
5.2. Fee and commission income and expense



Compared to the same period last year, fee and commission income for banking services increased by 340.6 million dinars or by 7.5%, while expenses for fees and commissions increased by 173.5 million dinars or by 17.7 %.

Profit on fees and commissions at the end of the third quarter of 2017 is 3,756.0 million dinars, higher than in the same period of the previous year by 167.1 million dinars.

5.3. Generated profit from regular business



After the correction of NPL loans in the past year, the Bank started 2017 with a significantly better loan portfolio. In the period from January 1 to September 30, 2017, operating profit (before taxes) in the amount of RSD 5,698.1 million was generated, as opposed to the previous year when a loss of RSD 1,779.7 million was recorded.

Achieved operating profit made the return on average total capital of 12.8%, i.e. yield on average assets of 2.0% for the Bank.

5.4. Performance indicators prescribed by the Law on Banks

NO.	DESCRIPTION	PRESCRIBED	30.09.2017.	2016.
1.	CAPITAL ADEQUACY INDICATOR (CAPITAL / RISK ASSETS); * REQUIREMENTS FOR COMBINED PROTECTIVE CAPITAL LAYER	MIN. 8%+6,5pp*	27,19	26,97
2.	INVESTMENT INDICATOR IN ENTITIES OUTSIDE OF THE FINANCIAL SECTOR AND FIXED ASSETS	MAX 60%	15,31	17,47
3.	INDICATOR OF SUM OF LARGE EXPOSURES OF THE BANK	MAX. 400%	35,51	38,48
4.	FX RISK INDICATOR	MAX. 20%	5,41	2,96
5.	LIQUIDITY INDICATOR	MIN. 0,8	5,41	2,86

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

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

7. ALL IMPORTANT TRANSACTIONS WITH RELATED PERSONS

As of 30.09.2017, the persons related to the Bank are:

1. Komercijalna banka a.d. Budva, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina
3. KomBank Invest a.d. Belgrade,
4. One legal entity (CEDENS company doo Beograd) and a larger number of natural persons, in accordance with the provisions of Article 2 of the Banking Law in the part regulating the term "persons related to the bank".

Total exposure to persons related to the Bank as at 30.09.2017 amounted to 593,650.2 thousand dinars, which, compared to the regulatory capital of 49.272.213,6 thousand dinars, was 1.20% (the maximum value of total loans to persons related to the Bank under the Law on Banks is 25% of the capital).

Major portion the exposure to persons related to the Bank as at 30.09.2017 is the amount of RSD 413,665.7 thousand, or 0.84% of the Bank's regulatory capital, and this is related to loans extended to KombankInvest ad Beograd.

Pursuant to the Article 37 of the Law on Banks, the Bank did not grant loans to the persons related to the bank under more favourable conditions than the conditions granted to other persons not related to the bank.

More detailed overview of the Bank's relation to related persons is provided in the Item „Related Persons", Notes to Financial Statements.

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

After the end of the last fiscal year, until the end of the Q3 2017, of the major business events, we single out the holding of three regular sessions of the General Meeting of Bank's Shareholder. At the General Meeting of Shareholders of the Bank, which was held on January 25, 2017, the following decisions were made:

1. Decision on sale of shares from the Bank's portfolio in the following legal entities: Jubmes Banka ad Beograd, Politika ad Beograd, Dunav osiguranje ado Belgrade, Belgrade Stock Exchange ad Beograd, and Tržište novca ad Beograd.
2. Information related to the Article 77 of the Law on Banks
3. Report in line with the Article 78 of the Law on Banks

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

1. Decision on adoption of the Strategy and Business Plan of the Bank for the period 2017-2019.
2. Annual Operating Report of the Bank for 2016 and Report and Opinion of the External Auditor on the Audit of Regular Financial Statements of Komercijalna Banka AD Beograd for 2016:
    a. Decision on adoption of the Annual Operating Report of Komercijalna Banka AD Belgrade and regular financial statements with the opinion of the external auditor for 2016.
    b. Decision on allocation of part of undistributed profit from previous years for dividends for preferential shares of the Bank.
    c. Decision to cover the Bank's loss from 2016.
3. Decision on adoption of the Annual Operating Report and Consolidated Financial Statements of the Komercijalna Banka AD Belgrade Group with the opinion of the external auditor for 2016.
4. Decision on amendments and supplements to the Statute of Komercijalna Banka AD Beograd (consolidated text).

On 27.07.2017, the new, session of the General Meeting of Bank's Shareholders was held, when the following decisions were made:

1. Decision on appointment of the bank's external auditor for 2017.
2. Decision on inclusion of revaluation reserves and other unrealized gains in the share capital of the Bank.

The description of events after the end of the business year is also presented in Item 6. Events after the balance sheet, Notes to the financial statements for the third quarter of 2017.

9. MAIN DATA ON THE ACHIEVEMENT OF THE BUSINESS PLAN FOR 2017

The achievement of the Strategy and Business Plan for the first nine months of 2017 unfolded within the following macroeconomic business conditions, of which we especially single out:

- GDP growth of 1.3% in the second quarter of 2017 compared to the same period of the previous year (SSO[5]), the plan for the current business year is a growth of 3.0% (IAS),

-appreciation of the RSD exchange rate, which ranged around the level of 119 dinars for 1 euro (the planned exchange rate of dinar against the euro at the end of the current year: 1 euro = 123, 50 dinars (KB Belgrade), and on September 30, 2017: value of 1 euro = 119.37 dinars was achieved),

- the inflation rate (year-on-year rate, September 2017/September 2016) is 3.2% and has a growing trend, currently remains within the target limit for August this year (3.0 ± 1.5%).

During the second quarter of 2017, according to the data from the Ministry of Finance, the annual growth of economic activity was 1.3%[6]. Growth in the second quarter was largely driven by the service sector (1.2 pp.). Manufacturing industry and the electricity sector also received positive contribution (0.6 p.p.). Negative

[5] Quarterly gross domestic product at constant prices - press release, II quarter 2017, SSO
[6] Current macroeconomic developments, September 2017, Ministry of Finance of RS

movements were recorded in agriculture and construction for a second quarter in a row. Total industrial production in the second quarter recorded an increase of 3.1% y.o.y. The manufacturing industry grew by 5.1%[7] y.o.y. compared to the same period of the previous year. In the same period electricity generation recorded negative trends.

In the second quarter, the most significant increase was registered in the chemical and machine production sector, production of basic metals, electrical equipment and rubber industry. Retail trade turnover in the first seven months of the current year increased by 4%[8]. Since the beginning of the year, the number of issued building permits has increased (60.3%). The total foreign trade in the first seven months of 2017 amounted to EUR 19.9 billion[9], an increase of EUR 2.3 billion.

NBS foreign exchange reserves at the end of August of the current year amounted to EUR 10.3 billion[10]. The state's public debt at the end of August 2017 amounted to EUR 23.8 billion[11] i.e. 64.6% of GDP. In the first eight months of the current year, the inflow of foreign direct investments (FDI) amounted to EUR 1,504.4 million[12] while the projection for the entire year was revised upward and amounted to 1.7 billion euros. Interest rates on newly approved dinar loans in August amounted to 6.3% for the corporate and 10.7% for the retail sector[13]. Banks achieved growth in lending activity in August of this year of 6.1% y.o.y. with the growth of retail loans accounting for 12.7%, while corporate loans growth by 0.9% y.o.y[14]. By the end of 2017, as well as in 2018, further credit growth of banks is expected, given the expected growth of economic activity, competition among banks, relaxation of monetary policy and low interest rates on the international money market.

9.1. Planned and achieved values of the balance sheet for the third quarter of 2017

The total balance sheet assets of the Bank at the end of the third quarter of 2017 amounted to 374,459.0 million dinars and in relation to the planned value for the end of the current year, it is lower by 2,370.8 million dinars and 0.6%. Significant positive deviations between the realized and planned amounts were recorded at the securities position, the realized value was higher by 15,821.2 million dinars or 14.9%, while loans to banks and other financial organizations was higher by 7,888.7 million dinars than planned annual size at the end of the quarter.

Lower realized values in relation to the planned were recorded at the corporate lending position, a decrease of 17,733.2 million dinars (-21.4%) and retail loans, where in relation to the planned amount for the end of this year, a decrease in the amount of RSD 3,462.6 million was recorded.

In the structure of the balance sheet liabilities, positive deviation in relation to the planned amounts was achieved in other liabilities (RSD 7,581.2 million or 45.0%), while the deposit position remained under the plan (RSD 12,787.8 million and -4.3 %, excluding other liabilities and received credit lines). At the end of September, deposits amounted to RSD 288,073.2 million and were lower by RSD 12,787.8 million compared to planned value (corporate deposits are less than planned for 8.531,6 million dinars, retail by 3,333.8 million dinars and banks and other financial organization for 922.5 million dinars).

Movement of the dinar exchange rate - appreciation (3.4% relative to the EUR), to some extent increased the negative deviations between realized and planned sizes.

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[7] Current macroeconomic developments, September 2017, Ministry of Finance of RS
[8] Current macroeconomic developments, September 2017, Ministry of Finance of RS
[9] Current macroeconomic developments, September 2017, Ministry of Finance of RS
[10] Basic macroeconomic indicators, October 2017, NBS
[11] RS Ministry of Finance
[12] Macoreconomic trends in Serbia, October 2017, NBS
[13] Macoreconomic trends in Serbia, October 2017, NBS
[14] Macoreconomic trends in Serbia, October 2017, NBS

Planned and achieved positions of assets and liabilities in the balance sheet as at 30.09.2017 have the following values:

(000 RSD)

NO	BALANCE SHEET POSITION	Plan 31.12.2017	Achieved30.09.2017.	INDEX
1	2	3	4	5=4/3
	ASSETS			
1.	Cash and cash equivalents	60.956	54.059	88,68
2.	Securities	106.108	121.929	114,91
3.	**Loans and deposits to customers (3.1.+3.2.+3.3.)**	**168.959**	**155.651**	92,12
3.1.	Enterprises	82.964	65.231	78,63
3.2.	Retail customers	84.112	80.649	95,88
3.3.	Banks and financial organizations	1.883	9.771	519,05
4.	Other assets	40.807	42.820	104,93
5.	**TOTAL ASSETS (1.+2.+3.+4.)**	**376.830**	**374.459**	99,37
	LIABILITIES			
1.	**Deposits**	**300.861**	**288.073**	95,75
1.1.	Enterprises	59.268	50.736	85,61
1.2.	Retail customers	234.460	231.126	98,58
1.3.	Banks and financial organizations	7.133	6.211	87,07
2.	**Other liabilities**	**16.844**	**24.425**	145,01
3.	**Total liabilities (1.+2.)**	**317.705**	**312.498**	98,36
4.	**Total capital**	**59.125**	**61.961**	104,80
5.	**TOTAL LIABILITIES (3.+4.)**	**376.830**	**374.459**	99,37

9.2. Planned and achieved values of Profit & Loss for the period 01.01-30.09.2017

(000 RSD)

NO	BALANCE SHEET POSITION	Planned 01.01.-30.09.2017	Achieved 01.01.-30.09.2017.	INDEX
1	2	3	4	5=4/3
1.1.	Interest income	11.183	10.709	95,8
1.2.	Interest expense	1.652	1.267	76,7
1.	**Profit from interest (1.1.-1.2.)**	**9.531**	**9.442**	99,1
2.1.	Fee and commission income	5.101	4.911	96,3
2.2.	Fee and commission expense	979	1.155	118,1
2.	**Profit and commission income (2.1-2.2)**	**4.122**	**3.756**	91,1
3.	Net foreign exchange gains and changes in value (foreign exchange clause)	0	-30	-
4.	Net other operating income / expenses	202	693	343,5
5.	Net expenses / income from indirect write-offs of loans and provisions	-2.475	-217	8,8
6.	Operating expenses	8.113	7.946	97,9
7.	**PROFIT FROM OPERATING BUSINESS**	**3.268**	**5.698**	174,4

When it comes to P&L positions, significant variation is recorded in net income / expense and impairment losses (realized net expense 216.9 million, compared to a planned expenditure of 2,474.7 million). At the position of profit from interest, the realized value was lower than planned by 89.3 million dinars. Profit from fees and commissions is lower than the planned by RSD 366.1 million. Operating expenses in the same period were lower than planned by 166.7 million as a result of the rationalization of operating costs. Other operating income is higher than planned by 491.3 million dinars.

Due to lower net expenses from impairment of financial assets and credit risk bearing off-balance sheet items, as well as significant increase in net other operating income at the end of the third quarter of 2017, the Bank achieved pre-tax profit in the amount of 5,698.1 million dinars, which is 74.4% more than the planned value for the period from January 1 to September 30, 2017.

Singed on behalf of Komercijalna Banka ad Beograd

BALANCE SHEET

on 30.09.2017.

(in RSD thousand)

POSITION	ADP code	Amount	
		Current year ammount	Previous year ammount
1	2	3	4
ASSETS			
Cash and balances with central banks	0001	54.058.982	55.153.209
Pledged funds	0002	-	-
Financial assets at fair value through profit or loss held for trading	0003	4.193.696	242.920
Financial assets initially recognized at fair value through profit or loss	0004	-	-
Financial assets available for sale	0005	117.735.382	136.123.853
Financial assets held to maturity	0006	-	-
Loans and advances to banks and other financial institutions	0007	33.494.992	40.601.413
Loans and advances to clients	0008	146.292.659	150.411.409
Changes in fair value of items that are the subject of hedging	0009	-	-
Receivables from financial derivatives held for hedging	0010	-	-
Investments in associates and joint ventures	0011	-	-
Investments in subsidiaries	0012	2.611.859	2.611.859
Intangible assets	0013	334.463	362.507
Property, plant and equipment	0014	5.498.961	5.856.458
Investment property	0015	2.039.889	2.217.816
Current tax assets	0016	-	-
Deferred tax assets	0017	1.768.775	-
Non-current assets held for sale and assets of discontinued operations	0018	331.008	183.170
Other assets	0019	6.098.301	6.252.855
TOTAL ASSETS (from 0001 to 0019)	0020	374.458.967	400.017.469
LIABILITIES			
Financial liabilities at fair value through profit or loss held for trading	0401	-	-
Financial liabilities initially recognized at fair value through profit or loss	0402	-	-
Liabilities from financial derivatives held for hedging	0403	-	-
Deposits and other liabilities to banks, other financial institutions and the central bank	0404	5.523.420	7.834.962
Deposits and other liabilities to other clients	0405	292.771.368	322.621.360
Changes in fair value of items that are the subject of hedging	0406	-	-
Issued own securities and other borrowed funds	0407	-	-
Subordinated liabilities	0408	6.046.400	6.178.390
Provisions	0409	1.196.815	1.787.294
Liabilities from non-current assets held for sale and assets of discontinued operations	0410	-	-
Current tax liabilities	0411	-	-
Deferred tax liabilities	0412	576.374	23.592
Other liabilities	0413	6.384.022	6.147.569
TOTAL LIABILITIES (from 0401 to 0413)	0414	312.498.399	344.593.167
EQUITY			
Equity	0415	40.034.550	40.034.550
Own shares	0416	-	-
Profit	0417	6.933.915	349.698
Loss	0418	-	8.063.183
Reserves	0419	14.992.103	23.103.237
Unrealized losses	0420	-	-
Shares without control	0421	-	-
TOTAL EQUITY (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422	61.960.568	55.424.302
TOTAL DEFICIENCY OF CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423	-	-
TOTAL LIABILITIES (0414 + 0422 - 0423)	0424	374.458.967	400.017.469

INCOME STATEMENT

from 01.01.2017 to 30.09.2017

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.07.-30.09.	01.01.-30.09.	01.07.-30.06.	01.01.-30.09.
1	2	3*	4**	5	6
Interest income	1001	3.432.527	10.709.303	4.231.143	12.843.795
Interest expenses	1002	379.180	1.267.122	790.725	2.615.794
Net interest profit (1001-1002)	1003	3.053.347	9.442.181	3.440.418	10.228.001
Net interest loss (1002-1001)	1004	-	-	-	-
Fee and commission income	1005	1.718.064	4.911.470	1.609.332	4.570.873
Fee and commission expenses	1006	424.798	1.155.426	436.325	981.921
Net fee and commission income (1005 - 1006)	1007	1.293.266	3.756.044	1.173.007	3.588.952
Net fee and commission expenses (1006 - 1005)	1008	-	-	-	-
Net gains on financial assets held for trading	1009	24.310	63.793	18.646	46.748
Net loss on financial assets held for trading	1010	-	-	-	-
Net gains from risk protection	1011	-	-	-	-
Net loss from risk protection	1012	-	-	-	-
Net gains on financial assets that are initially recognized at fair value through profit or loss	1013	-	-	-	-
Net losses on financial assets that are initially recognized at fair value through profit or loss	1014	-	-	-	-
Net profit from sale of securities	1015	-	43.886	-	-
Net loss from sale of securities	1016	-	-	2.948	53.675
Net income from foreign exchange differences and effects of contracted foreign currency clause	1017	-	-	-	-
Net foreign exchange losses and the effects of contracted foreign currency clause	1018	30.202	30.219	6.691	5.492
Net gains on investments in associates and joint ventures	1019	-	306	5.143	5.143
Net loss on investments in associates and joint ventures	1020	-	-	-	-
Other operating income	1021	106.459	815.915	66.564	215.929
Net income from reversal of impairment of financial assets and off-balance sheet credit risk items	1022	-	-	-	-
Net impairment losses of financial assets and off-balance sheet credit risk items	1023	444.263	216.936	1.139.265	7.385.488
NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1024	4.002.917	13.874.970	3.554.874	6.640.118
NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) < 0	1025	-	-	-	-
Saleries, wages, and other personnel indemnities	1026	1.070.072	3.290.095	1.073.744	3.237.684
Depreciation costs	1027	137.555	428.792	131.195	515.030
Other expenses	1028	1.517.350	4.457.981	1.484.087	4.667.106
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1029	1.277.940	5.698.102	865.848	-
LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1030	-	-	-	1.779.702
Tax on profit	1031	-	-	-	-
Deffered tax income for the period	1032	-	1.235.813	-	-
Deffered tax expense for the period	1033	-	-	-	-
PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1034	1.277.940	6.933.915	865.848	-
LOSS FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1035	-	-	-	1.779.702
NET PROFIT OF DISCONTINUED OPERATIONS	1036	-	-	-	-
NET LOSS OF DISCONTINUED OPERATIONS	1037	-	-	-	-
NET PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1038	1.277.940	6.933.915	865.848	-
NET LOSS (1034 - 1035 + 1036 - 1037) < 0	1039	-	-	-	1.779.702
Net profit which belongs to owners of parent legal entity	1040	-	-	-	-
Net profit which belongs to minority investors	1041	-	-	-	-
Net loss which belongs to owners of parent legal entity	1042	-	-	-	-
Net loss which belongs to minority investors	1043	-	-	-	-
Earnings per share					
Basic earnings per share (in RSD, rounded)	1044	-	-	-	-
Diluted earnings per share (in RSD, rounded)	1045	-	-	-	-

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

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

from 01.01.2017. to 30.09.2017.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.07.-30.09.	01.01.-30.09.	01.07.-30.09.	01.01.-30.09.
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	1.277.940	6.933.915	865.848	-
LOSS FOR THE PERIOD	2002	-	-		1.779.702
Other result for the period		-	-	-	-
Components of other result that cannot be reclassified to profit or loss: Increase of revaluation reserves against intangible assets and fixed assets	2003	-	-	-	-
Decrease of revaluation reserves against intangible assets and fixed assets	2004	-	-	-	-
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2007	-	-	-	-
Negative effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2008	-	-	-	-
Components of other result that can be reclassified to profit or loss: Positive effects of changes in fair value based on financial assets available for sale	2009	13.358	2.058	306.713	544.162
Unrealized losses arising from securities available for sale	2010	-	363.080		524.122
Gains from hedging instruments in a cash flow hedge	2011	-	-	-	-
Losses from hedging instruments in a cash flow hedge	2012	-	-	-	-
Positive cumulative differences arising from currency conversions in foreign exchange operations	2013	-	-	-	-
Negative cumulative differences arising from currency conversions in foreign exchange operations	2014	-	-	-	-
Positive effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2015	-	-	-	-
Negative effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2016	-	-	-	-
Tax-related profit that pertains to other result for the period	2017	-	-	-	-
Tax-related loss that pertains to other result for the period	2018	-	-	-	-
Total positive other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) ≥ 0	2019	**13.358**	-	**306.713**	**20.040**
Total negative other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) < 0	2020	-	**361.022**	-	-
TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2021	**1.291.298**	**6.572.893**	**1.172.561**	-
TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) < 0	2022	-	-	-	**1.759.662**
Total positive result for the period that pertains to parent entity	2023	-	-	-	-
Total positive result for the period that pertains to owners without control rights	2024	-	-	-	-
Total negative result for the period that pertains to parent entity	2025	-	-	-	-
Total negative result for the period that pertains to owners without control rights	2026	-	-	-	-

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

CASH FLOW STATEMENT

from 01.01.2017 to 30.09.2017

(in RSD thousand)

	POSITION	ADP code	Amount 01.01.-30.09.2017.	Amount 01.01-30.09.2016
	1	2	3*	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflows from operating activities (from 3002 to 3005)**	3001	18.086.047	19.106.684
1.	Inflows from Interest	3002	12.305.748	14.373.898
2.	Inflows from allowances	3003	4.921.329	4.588.863
3.	Inflows from other operating income	3004	851.352	130.071
4.	Inflows from dividends and participation in profit	3005	7.618	13.852
II.	**Cash outflows from operating activities (from 3007 to 3011)**	3006	10.030.094	10.957.581
5.	Outflows from interest	3007	1.254.424	2.556.968
6.	Outflows from allowances	3008	1.157.426	982.746
7.	Outflows from gross salleries, wages and other personnel indemnities	3009	3.168.884	3.086.579
8.	Outflows from taxes, contributions and other obligations from income	3010	574.953	572.425
9.	Outflows from other operating expenses	3011	3.874.407	3.758.863
III.	**Net cash inflow from operating activities prior to increase or decrease in advances and deposits (3001 - 3006)**	3012	8.055.953	8.149.103
IV.	**Net cash outflow from operating activities prior to increase or decrease in advances and deposits (3006 - 3001)**	3013	-	-
V.	**Decrease in loans and increase in deposits and other liabilities (from 3015 to 3020)**	3014	17.449.319	27.906.490
10.	Decrease in loans and advances to banks, other financial institutions, central bank and other clients	3015	9.981.934	-
11.	Decrease of financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3016	7.467.385	6.417.789
12.	Decrease in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3017	-	-
13.	Increase in deposits and other liabilities to banks, other financial institutions, central banks and other clients	3018	-	21.488.701
14.	Increase in financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3019	-	-
15.	Increase in liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3020	-	-
VI.	**Increase in loans and decrease in deposits and other liabilities (from 3022 to 3027)**	3021	17.791.980	8.990.347
16.	Increase in loans and advances to banks, other financial institutions, central bank and other clients	3022	-	8.990.347
17.	Increase in financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3023	-	-
18.	Increase in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3024	-	-
19.	Decrease in deposits and other liabilities to banks, other financial institutions, central bank and other clients	3025	17.791.980	-
20.	Decrease of financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3026	-	-
21.	Decrease of liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3027	-	-
VII.	**Net cash inflow from operating activities before tax (3012 - 3013 + 3014 - 3021)**	3028	7.713.292	27.065.246
VIII.	**Net cash outflow from operating activities before tax (3013 - 3012 + 3021 - 3014)**	3029	-	-
22.	Profit tax paid	3030	-	-
23.	Dividends paid	3031	-	119.477
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	7.713.292	26.945.769
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	-	-
Б.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I.	**Cash inflows from investing activities (од 3035 до 3039)**	3034	45.734.104	35.449.045
1.	Inflows from long-term investment in securities	3035	45.614.645	35.448.758
2.	Inflows from sale of investments in subsidiaries and associates and joint ventures	3036	-	-
3.	Inflows from sale of intangible assets, property, plant and equipment	3037	577	287
4.	Inflow of sale of investment property	3038	118.882	-
5.	Other inflows from investing activities	3039	-	-
II.	**Cash outflows from investing activities (from 3041 to 3045)**	3040	44.843.784	45.762.586
6.	Outflows from investment in long-term securities	3041	44.646.913	45.340.298
7.	Outflows from purchase of investments in subsidiaries and associates and joint ventures	3042	-	-
8.	Outflows from purchase of sale of intangible assets, property, plant and equipment	3043	196.871	422.288
9.	Outflows from purchase of investment property	3044	-	-
10.	Other outflows from investing activities	3045	-	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	890.320	-
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	-	10.313.541
B.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflows from financing activities (from 3049 to 3054)**	3048	71.519.852	94.141.027
1.	Inflows from capital increase	3049	-	-
2.	Cash inflows from subordinated obligations	3050	-	-
3.	Cash inflows from loans received	3051	71.519.852	94.141.027
4.	Inflows from securities	3052	-	-
5.	Inflows from sale of own shares	3053	-	-
6.	Other inflows from financing activities	3054	-	-
II.	**Cash outflows from financing activities (from 3056 to 3060)**	3055	75.349.474	99.845.569
7.	Outflows from purchase of own shares	3056	-	-
8.	Cash outflows from subordinated obligations	3057	-	-
9.	Cash outflows from loans received	3058	75.349.474	99.845.569
10.	Cash outflows from securities	3059	-	-
11.	Other outflows from financing activities	3060	-	-
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	-	-
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	3.829.622	5.704.542
Г.	**TOTAL NET CASH INFLOWS (3001 + 3014 + 3034 + 3048)**	3063	152.789.322	176.603.246
Д.	**TOTAL NET CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	148.015.332	165.675.560
Ђ.	**NET INCREASE IN CASH (3063 - 3064)**	3065	4.773.990	10.927.686
E.	**NET DECREASE IN CASH (3064 - 3063)**	3066	-	-
Ж.	**CASH AT THE BEGINNING OF THE YEAR**	3067	34.945.610	36.227.664
З.	**PROFIT ON EXCHANGE**	3068	-	148.383
И.	**LOSS ON EXCHANGE**	3069	587.749	-
J.	**CASH AT END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)**	3070	39.131.851	47.303.733

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

STATEMENT OF CHANGES IN EQUITY

from 01.01.2017 to 30.09.2017

(in RSD thousand)

ITEM	ADP code	Share and other capital (accounts 800,801,803)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Total (column 2-3+4+5+6-7+8-9)≥0	ADP code	Total (column 2-3+4+5+6-7+8-9)<0
1		2		3		4		5		6		7		8		9		10		11
Opening balance as of January 1st of preceding year	4001	17 191 466	4029		4057	22 843 084	4085	24 935 440	4113	3 977 808	4127	227 944	4141	179 550	4175	6 061 358	4209	62 838 046	4215	
Correction of material misstatement and changes to accounting policies in preceding year – increase	4002		4030		4058		4086		4114		4128		4142		4176					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4003		4031		4059		4087		4115		4129		4143		4177					
Adjusted opening balance as of January 1st of preceding year (number 1+2-3)	4004	17 191 466	4032		4060	22 843 084	4088	24 935 440	4116	3 977 808	4130	227 944	4144	179 550	4178	6 061 358	4210	62 838 046	4216	
Total positive other result for the period									4117	338 688	4131	222 857								
Total negative other result for the period									4118		4132									
Profit for the year													4145							
Loss for the year															4179	8 063 183				
Transfer from reserves to result due to release of reserves – increase													4146		4180					
Transfer from reserves to result due to release of reserves – decrease													4147		4181					
Transactions with owners, recorded directly in equity – increase	4005		4033		4061		4089						4148		4182					
Transactions with owners, recorded directly in equity – decrease	4006		4034		4062		4090						4149		4183					
Profit distribution – increase	4007		4035		4063		4091						4150		4184					
Profit distribution, and/or loss coverage – decrease	4008		4036		4064		4092	6 143 612					4151	156 019	4185	6 299 631				
Dividend payments	4009		4037		4065		4093						4152	23 531	4186					
Other – increase	4010		4038		4066		4094						4153	349 698	4187	238 273				
Other – decrease	4011		4039		4067		4095						4154		4188					
Total transactions with owners (number 11-12+13-14-15+16-17) ≥ 0	4012	0	4040	0	4068	0	4096	0					4155	170 148	4189	0				
Total transactions with owners (number 11-12+13-14-15+16-17) < 0	4013	0	4041	0	4069	0	4097	6 143 612					4156		4190	6 061 358				
Balance as of December 31st of preceding year (number 4+5-6+7+8+9-10+18-19 for columns from 2,3,4,5,6,8,9), for column 7 (number 4+6-5)	4014	17 191 466	4042	0	4070	22 843 084	4098	18 791 828	4119	4 316 496	4133	5 087	4157	349 698	4191	8 063 183	4211	55 424 302	4217	
Opening balance as of January 1st of the current year	4015	17 191 466	4043		4071	22 843 084	4099	18 791 828	4120	4 316 496	4134	5 087	4158	349 698	4192	8 063 183	4212	55 424 302	4218	
Correction of material misstatement and changes to accounting policies in preceding year – increase	4016		4044		4072		4100		4121		4135		4159		4193					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4017		4045		4073		4101		4122		4136		4160		4194					
Adjusted opening balance as of January 1st of the current year (number 21+22-23)	4018	17 191 466	4046	0	4074	22 843 084	4102	18 791 828	4123	4 316 496	4137	5 087	4161	349 698	4195	8 063 183	4213	55 424 302	4219	
Total positive other result for the period									4124		4138	2 058								
Total negative other result for the period									4125	382 899	4139									
Profit for the year													4162	6 933 915						
Loss for the year															4196					
Transfer from reserves to result due to release of reserves – increase													4163		4197					
Transfer from reserves to result due to release of reserves – decrease													4164		4198					
Transactions with owners, recorded directly in equity – increase	4019		4047		4075		4103						4165		4199					
Transactions with owners, recorded directly in equity – decrease	4020		4048		4076		4104						4166		4200					
Profit distribution – increase	4021		4049		4077		4105						4167		4201					
Profit distribution, and/or loss coverage – decrease	4022		4050		4078		4106	7 730 293					4168	332 890	4202	8 063 183				
Dividend payments	4023		4051		4079		4107						4169	16 808	4203					
Other – increase	4024		4052		4080		4108						4170		4204					
Other – decrease	4025		4053		4081		4109						4171		4205					
Total transactions with owners (number 31-32+33-34-35+36- 37) ≥ 0	4026	0	4054	0	4082	0	4110	0					4172		4206	0		0		
Total transactions with owners (number 31-32+33-34-35+36- 37) < 0	4027	0	4055	0	4083	0	4111	7 730 293					4173	349 698	4207	8 063 183		0		
Balance as of September 30 st of the current year (number 24+25-26+27+28+29-30+38-39 for columns from 2,3,4,5,6,8,9), for the column 7 (number 24+26-25)	4028	17 191 466	4056	0	4084	22 843 084	4112	11 061 535	4126	3 933 597	4140	3 029	4174	6 933 915	4208	0	4214	61 960 568	4220	

КОМЕРЦИЈАЛНА БАНКА
АД Београд

NOTES

TO FINANCIAL STATEMENTS FOR THE THIRD QUARTER 2017

Belgrade, October 2017

1. INCORPORATION AND OPERATION OF THE BANK

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

As of 30.09.2017 the largest voting shareholders of the Bank are:
1. Republic of Serbia and
2. EBRD, London
The Bank has three subsidiaries with the following percentage holdings in their respective ownership:

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

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

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

As of 30.09.2017, the Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 11 business and business – corporate centres, 1 branch and 203 sub-branches.

As of 30.09.2017, the Bank has 2,783 employees, and on 31 December 2016 the number of employees was 2,858. Tax ID number of the Bank is 100001931.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Statement of Compliance

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

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

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

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

2.2. Assessment Rules

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

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

2.3. Functional and Reporting Currency

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

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

BALANCE SHEET

The structure of the Bank's balance sheet as of 30.09.2017, with comparative data for 2016, prepared in the format prescribed by the Decision on Forms and the Contents of Items in the Forms for Financial Statements of Banks (RS Official Gazette 71/2014 and 135/2014) can be seen in more detail from the following overview (reported in thousands of dinars):

In RSD thousand

	30.09.2017		31.12.2016	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	55,058,982	14.44	55,153,209	13.79
Financial assets at fair value through profit and loss, held for trading	4,193,696	1.12	242,920	0.06
Fin. assets available for sale	117,735,382	31.44	136,123,853	34.03
Fin. assets held to maturity	-	-	-	-
Loans and receivables due from banks and other financial organizations	33,494,992	8.94	40,601,413	10.15
Loans and receivables from customers	146,292,659	39.07	150,411,409	37.60
Investments in subsidiaries	2,611,859	0.70	2,611,859	0.65
Intangible assets	334,463	0.09	362,507	0.09
Property, plant and equipment	5,498,961	1.47	5,856,458	1.46
Investment property	2,039,889	0.54	2,217,816	0.55
Current tax assets	-	-	-	-
Deferred tax assets	1,768,775	0.47	-	-
Non-current assets held for sale and assets from discontinued operations	331,008	0.09	183,170	0.05
Other assets	6,098,301	1.63	6,252,855	1.57
TOTAL ASSETS	**374,458,967**	**100.00**	**400,017,469**	**100.00**

In RSD thousand

	30.09.2017		31.12.2016	
LIABILITIES	Amount	%	Amount	%
Financial liabilities at fair value through profit and loss, held for trading	-	-	-	-
Deposits and other liabilities due to banks, other fin. organizations and central bank	5,523,420	1.48	7,834,962	1.96
Deposits and other liabilities due to other customers	292,771,368	78.19	322,621,360	80.65
Subordinated liabilities	6,046,400	1.61	6,178,390	1.54
Provisions	1,196,815	0.32	1,787,294	0.45
Deferred tax liabilities	576,374	0.15	23,592	0.01
Other liabilities	6,384,022	1.70	6,147,569	1.53
Equity	61,960,568	16.55	55,424,302	13.86
TOTAL LIABILITIES	**374,458,967**	**100.00**	**400,017,469**	**100.00**

INCOME STATEMENT

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

In RSD thousand

	30.09.2017	30.09.2016
INCOME	Total	Total
Interest income	10,709,303	12,843,795
Fee and commission income	4,911,470	4,570,873
Net gains on the financial assets held for trading	63,793	46,748
Net gains on financial assets available for sale	43,886	-
Net income from FX differences and the effect of agreed currency clause	-	-
Net gains on investments in subsidiaries and joint ventures	306	5,143
Other operating income	815,915	215,929
Net gains on reduction in impairments of financial assets and credit risk weighted off-balance sheet items	-	-

EXPENSES	Total	Total
Interest expense	1,267,122	2,615,794
Fee and commission expense	1,155,426	981,921
Net loss from financial assets held for trading	-	-
Net loss from financial assets available for sale	-	53,675
Net expense from exchange rate differentials and the effects of agreed currency clause	30,219	5,492
Net expense from impairment of financial assets and credit risk weighted off-balance sheet items	216,936	7,385,488
Cost of salaries, allowances and other personnel expenses	3,290,095	3,237,684
Depreciation cost	428,792	515,030
Other expenses	4,457,981	4,667,106

Profit/loss before tax	**5,698,102**	**(1,779,702)**
Profit from deferred tax	**1,235,813**	**-**
Result for the period (profit/loss)	**6,933,915**	**(1,779,702)**

CASH FLOW STATEMENT

In RSD thousand

Item	30.09.2017 Total	30.09.2016 Total
Cash inflows from operating activities	**18,086,047**	**19,106,684**
Inflow from interest	12,305,748	14,373,898
Inflow from fees	4,921,329	4,588,863
Inflow from other operating activities	851,352	130,071
Inflow from dividends and share in profit	7,618	13,852
Cash outflows from operating activities	**10,030,094**	**10,957,581**
Interest payments	1,254,424	2,556,968
Fee payments	1,157,426	982,746
Payments for gross salaries, allowances and other personnel expenses	3,168,884	3,086,579
Taxes, contributions and other duties charged to income	574,953	572,425
Payments for other operating expenses	3,874,407	3,758,863
Net cash inflow from operating activities before increase or decrease in loans and deposits	**8,055,953**	**8,149,103**
Decrease in lending and increase in deposits and other liabilities	**17,449,319**	**27,906,490**
Decrease in loans and receivables from banks, other financial organizations, the central bank and customers	9,981,934	-
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	7,467,385	6,417,789
Increase in deposits and other liabilities to banks, other financial organizations, the central bank and customers	-	21,488,701
Increase in lending and decrease in received deposits and other liabilities	**17,791,980**	**8,990,347**
Increase in loans and receivables from banks, other financial organizations, the central bank and customers	-	8,990,347
Increase in financial assets initially recognized at fair value through income statement, financial assets held for trading and other securities not held for investment	-	-
Decrease in deposits and other liabilities to banks, other financial organizations, central banks and customers	17,791,980	-

Item	30.09.2017. Total	30.09.2016. Total
Net inflow of cash from operating activities before profit tax	**7,713,292**	**27,065,246**
Net outflow of cash from operating activities before profit tax	**-**	**-**
Paid profit tax	-	-
Paid dividends	-	119,477
Net inflow of cash from operating activities	**7,713,292**	**26,945,769**
Net outflow of cash from operating activities	**-**	**-**
Cash inflow from investment activities	**45,734,104**	**35,449,045**
Inflow from investment securities	45,614,645	35,448,758
Inflow from sales of intangible assets, property, plants and equipment	577	287
Inflow from sale of investment property	118,882	-
Cash outflow from investment activities	**44,843,784**	**45,762,586**
Outflow from investing in investment securities	44,646,913	45,340,298
Outflow for purchase of intangible assets, property, plants and equipment	196,871	422,288
Outflow for purchase of investment property	-	-
Net inflow of cash from investment activities	**890,320**	**-**
Net outflow of cash from investment activities	**-**	**10,313,541**
Cash inflow from financing activity	**71,519,852**	**94,141,027**
Inflow from borrowings	71,519,852	94,141,027
Cash outflow from financing activity	**75,349,474**	**99,845,569**
Outflow from borrowings	75,349,474	99,845,569
Net outflow of cash from financing activity	**3,829,622**	**5,704,542**
Total cash inflow	**152,789,322**	**176,603,246**
Total cash outflow	**148,015,332**	**165,675,560**
Net increase in cash	**4,773,990**	**10,927,686**
Net decrease in cash	**-**	**-**
Cash and cash equivalents at the start of the year	**34,945,610**	**36,227,664**
Exchange rate gains	-	148,383
Exchange rate loss	587,749	-
End of period cash and cash equivalents	**39,131,851**	**47,303,733**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

Net interest income in the period January – September 2017 amounts to RSD 9,442,181 thousand and is lower by RSD 785,820 thousand, or 7.68% compared to the same quarter last year, as a result of a decrease in interest rates, decrease in corporate portfolio and refinancing of NPL clients by other banks during 2017 which resulted in a change in the structure of portfolio towards better quality loans. Net interest income was lower than that specified in the Business Plan for the first nine months of 2017 i.e. RSD 89,569 thousand above plan.

3.2. Fee and Commission Income and Expenses

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

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

Net fee income in the period January – September 2017 amounts to RSD 3,756,044 thousand and is higher compared to the same period 2016 by 4.66%, or RSD 167,092 thousand.

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

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

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

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

In the observed period of 2017 the Bank showed the net gains against financial assets held for trading in the amount of RSD 63,793 thousand (RS bonds and investment units of Kombank Invest).

As for financial assets available for sale the net gains from sale were recorded amounting to RSD 43,886 thousand (bonds and T-bills of the Republic of Serbia and foreign entities' bonds),

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

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

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

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

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

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

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

Net expenses from exchange rate differentials in the reporting period January – September 2017 amount to RSD 30,219 thousand. The stated net expense is mainly under direct impact of movement of RSD exchange rate against currency basket (currencies EUR, USD and CHF) between the two observed reporting periods as a form of protection against risk and management of the Bank's FX position – balanced FX position.

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

3.5. Other Operating Income

In the overall other operating income amounting to RSD 815,915 thousand, other revenues account for the most important share of 72.99 % (same period last year 38.39 %), which mainly refer to the income generated under the court case ruled in favor of the Bank, on the basis of final decision amounting to RSD 566,450 thousand. Excluding the effect of revenues generated from the court dispute ruled in favor of the Bank, the percentage of share of other revenues in total operating income equals 3.56%. Within other income, equally important items relate to income from:

- release of provisions for court disputes of RSD 25,426 thousand, fully relate to the revenue from the second quarter, given that the net positive effect of results of calculating provisions in the quarter is recognized through a decrease in required provisions through income from release of provisions. In the second quarter of 2017, the effect of net decrease of provisions for court disputes compared to the balance in the business books for the previous period in the amount of RSD 25,426 thousand is mostly a result of exchange rate differences for disputes expressed in a foreign currency (EUR, USD and CHF) and
- collected interest from previous years from corporate, entrepreneurs and retail in the total amount of RSD 21,649 thousand.

Within the other operating income the most significant items relate to revenues generated from leasing the real estate in the amount of RSD 79,845 thousand. Other operating revenues have been generated under the reimbursement of costs in relation to: mobile phones, court and utility costs and revenues on the basis of using the company cars for private purposes.

Income from dividends is part of the position: Other Income. Dividends received from investment in shares of other legal entities in the amount of RSD 7,618 thousand are shown as income from dividends at the moment of their collection. Out of total amount of received dividends, RSD 4,070 thousand relates to dividend received from VISA Inc. USA, while RSD 878 thousand to dividends received from MasterCard USA. In the third quarter 2017 income from dividend from investment into shares of company Dunav osiguranje was collected in the amount of 2,670 thousand dinars.

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

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

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

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

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

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

In the period January - September 2017, net expenses from impairment of financial assets and credit risk bearing off-balance-sheet items were recorded in the amount of RSD 216,936 thousand, while in the same period 2016 the net expenses incurred on the same basis amounted to RSD 7,385,488 thousand. This is primarily a result of the Bank's orientation to increase over the previous 2016 the coverage of NPLs by impairments and provisions at the expenses of the period, in order to „clean the assets" for the purpose of privatization, which was for the most part realized throughout 2016, as well as the absence of the planned increase in corporate loans.

3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 3,290,095 thousand are higher by RSD 52,411 thousand or 1.62 % compared to the same period last year. Net increase came primarily as a result of paid fees / severance pay for consensual termination of employment, growth of labour cost that is applied for calculation of salaries, by 2.17% since April 2016 and increase of average salary in the Republic of Serbia, which is the basis for calculating the meal allowance, vacation allowance and contributions by 4.34%, compared to the same period last year and the effects of the process of amending the internal organization and systematization.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 428,792 thousand are lower relative to the period January – September 2016 by RSD 86,238 thousand or 16.74%, mainly due to full depreciation of certain fixed and intangible assets, as well as reduced basis for calculation, on account of impairment of immovable property at the end of 2016 – reduction to fair value on the basis of valuation performed by a certified valuer.

3.9. Operating Expenses and Other Operating Expenses

Operating and other operating expenses are stated in the amount of RSD 4,457,981 thousand and they have been decreased in comparison to the same period last year by RSD 209,125 thousand, or 4.48%. Other costs consist of:

a) operating expenses amounting *to RSD* 4,227,167 *thousand,*
b) other expenses amounting to RSD 174,230 thousand,
c) cost arising from the change in the value of fixed assets, investment property and intangible assets in the amount of RSD 35,245 thousand,
d) cost of provisions for court disputes amounting to RSD 21,339 thousand.

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

a) Operating expenses in the total amount of RSD 4,227,167 thousand, as follows:

- costs of production services in the amount of RSD 1,439,435 thousand, of which the largest amounts come from: rental costs for office space, equipment and advertising space in the amount of RSD 428,692 thousand, costs of managing and maintaining ATMs and POS terminals network and other equipment for payment cards amounting to RSD 272,012 thousand,costs of advertising and marketing amounting to RSD 198,867 thousand, costs of maintenance of information equipment and software in the amount of RSD 181,260 thousand, cost of maintenance of office space and other equipment RSD 70.736 thousand and cost of heating amounting to RSD 50,862 thousand
- intangible costs totalling RSD 1,859,379 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 1,237,884 thousand and the property security expenses in the amount of RSD 190,181 thousand.
- cost of materials amounting to RSD 269,825 thousand

Operating expenses of the current period are lower year-on-year by RSD 97,732 thousand.

b) Other expenses in the amount of RSD 174,230 thousand.

Out of total amount of other expenses for the period January – September 2017, *totalling RSD 174,230 thousand* the largest part relates to costs of insurance policy of borrowers' receivables in the amount of RSD 76,395 thousand. Other expenses on such basis in Q3 2017 amounted to RSD 59,551 thousand. Considerable items of other expenses in the third quarter 2017 are the cost of lost court disputes in the amount of RSD 44,891 thousand dinars, cost per insurance policy of the user of account sets of RSD 21,708 thousand, costs for the travel insurance policy for users of international payment cards of RSD 8,079 thousand, interest expenses from court disputes from the previous year of RSD 5,893 thousand, as well as other expenses, the most significant of which is the paid tax for the transfer of absolute rights for foreclosed property in Montenegro, in the amount of RSD 3,440 thousand.

Compared to the same period 2016, other expenses are lower by RSD 71,921 thousand compared to the item from 2016 which related to the payment of interest of RSD 122,670 thousand, related to the case of Interexport AD Beograd from the second-instance decision of the Commercial Court of Appeal No. PZ 919/15 of 05.05.2016. This item is not present in the P&L for the current period.

c) expenses from revaluation of fixed assets, investment property and intangible assets in the amount of RSD 35,245 thousand relate mostly to the expenses for revaluation of investment property in Lovćenac in the amount of RSD 34,607 thousand dinars, on the basis of the valuation of a licenced valuer.

d) cost of provision for court liabilities amounts to RSD 21,339 thousand and relates to the increase in provision for court liabilities of the Bank in 2017. In the current quarter the Bank has posted an increase in expenses of RSD 3,915 thousand due to a net increase in provisions (gross principle of recognizing the changes in provisions – link note 3.5).

BALANCE SHEET

Balance sheet total as of 30.09.2017 amounts to RSD 374,458,967 thousand, which in comparison to 31.12.2016, represents a decrease by RSD 25,558,502 thousand, or 6.39%. Such decrease is largely a result of reduction in the item loans and receivables from clients, banks and other financial organizations on the assets side and reduction in the deposits from customers on the liabilities side.

ASSETS

In total Bank's assets loans and deposits to customers and banks have a dominant share of 48.01% (2016: 47.75%), financial assets available for sale with share of 31.44% (2016: 34.03%), cash and funds at the central bank with a share of 14.44% (2016: 13.79%), other assets with a share of 1.63% (2016: 1.57%), property, plant and equipment with a share of 1.47% (2016: 1.46%) and investment in subsidiaries of 0.70% (2016: 0.65%).

3.10. Cash and Funds with the Central Bank

Cash and assets with the central bank as of 30.09.2017 amount to RSD 54,058,982 thousand, and account for 14,44% of the Bank's total assets (13.79 % as of 31.12.2016). Compared to 31.12.2016 the position has decreased by RSD 1,094,227 thousand.

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

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

Investment in securities at fair value in the amount of RSD 4,193,696 thousand and financial assets available for sale in the amount of RSD 117,735,382 thousand, which together make up a percentage of share of 32.56% of total assets (2016: 34.09%), have decreased compared to 2016 by RSD 14,437,695 thousand. The recorded drop is entirely related to investments in financial assets available for sale amounting to RSD 18,388,471 thousand on account of realization of securities – sale or maturity, while the investments in securities held for trading recorded an increase of RSD 3,950,776 thousand.

In the structure of dinar financial assets available for sale as of 30.09.2017 the largest share is that of the bonds of the Republic of Serbia (92.66%), followed by T-bills of the Republic of Serbia (7.34%). As for securities in foreign currency, these are made up of bonds of the Republic of Serbia (97.81%), bonds by foreign banks and countries (2.15%). T-bills of the Republic of Serbia (0.04%)

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

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

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

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

As of 30.09.2017, loans and receivables from banks and other financial organizations amount to RSD 33,494,992 thousand with a percentage of share of 8.94% of total assets (2016: RSD 40,601,413 thousand) and are lower by RSD 7,106,421 thousand. Decrease compared to 31.12.2016 is mostly a result of decrease in REPO transactions by RSD 11,000,000 thousand, on one side, and an increase in balance in regular FX current accounts abroad by RSD 4,740,277 on the other.

Loans and receivables from customers as of 30.09.2017 amount to RSD 146,292,659 thousand with a percentage of share of 39.07% of total assets (2016: RSD 150,411,409 thousand) and as such have predominant share in asset structure. Total loans to customers are lower by RSD 4,118,750 thousand, primarily as a result of net difference of decrease due to prepaid loan in the total amount of approx. RSD 8,800,000 thousand dinars compared to the increase in lending of approx. RSD 4,700,000 thousand. Net decrease in loans and receivables from customers is mostly the result of refinancing NPL clients by other banks during 2017, which resulted in a change in portfolio structure in favour of better quality loans.

On 30.09.2017, in accordance with the NBS Decision on accounting write-off of balance-sheet assets of banks, the Bank performed a permanent write-off by transferring balance-sheet assets to the off-balance-sheet records in the amount of RSD 4,786,550 thousand. The permanent write-off did not result in a decrease in balance-sheet assets, given that the write-off was done for the receivables that had been 100% impaired i.e. in full gross amount of carrying value. According to the NBS decision, balance-sheet assets include NPLs that fit the description in the Decision on classification of balance-sheet assets and off-balance-sheet items.

3.13. Investment in Subsidiaries

Investments in subsidiaries are RSD 2,611,859 thousand and account for 0,70% of total assets.
The ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with subsidiaries, as a part of regular operations. These include primarily loans and deposits. Transactions with related entities have been carried out on market conditions.

Investments in subsidiaries as of 30.09.2017 amount to 5.480.888 **dinars** (gross amount excluding impairments) individual per members:

	In RSD thousand
KomBank Invest a.d. Beograd	140,000
Komercijalna banka a.d. Banja Luka	2,974,615
Komercijalna banka a.d. Budva	2,366,273
TOTAL GROSS	**5,480,888**
Impairments	(2,869,029)
NET	**2,611,859**

Decrease in the value of investment into subsidiaries was a result of appraisal of fair value by an independent valuer and the effects were recognized in the profit&loss as of 31.12.2016.

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

All these items account for 4.29% of total assets, of which the highest percentage relates to other assets 1.63%, property, plant and equipment amounting to 1.47%, and investment property equalling 0.54%.

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

Equity investments in banks, foreign and local legal entities as of 30.09.2017 amount to RSD 1,518,345 thousand (gross amount, excluding impairment) of which stake in the equity of foreign entities accounts for the largest share of RSD 970,552 thousand and these are stakes in the companies Master and Visa International.

Impairment provision for equity investments in banks, foreign and local legal entities as of 30.09.2017 amounts to RSD 504,732 thousand and there were no changes compared to the previous quarter.

Deferred tax assets in the amount of 1,768,775 thousand dinars mostly relate to the formed deferred tax assets from realized tax losses in the previous years. Taxable profit on the basis of the planned profit from the Business Plan for the period 2017 – 2019 amounts to approx. 8,239,000 thousand dinars and has enabled the recognition of deferred tax assets from tax losses carried forward in the amount of 1,235,813 thousand dinars. The period set for the use of these deferred tax assets is 5 years.

LIABILITIES

In the period January – September 2017 the structure of liabilities was still dominated by deposits and other liabilities to banks and customers with a total percentage of 79.67% (2016: 82.61%) of total liabilities. Share of capital in total liabilities equals 16.55% (2016: 13.86%).

Other items account for 3.78% of total liabilities, with the largest part referring to other liabilities with a percentage of 1.70% and subordinated liabilities with a percentage of 1.61%.

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

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

Deposits and other liabilities to customers account for the largest share in the structure of liabilities in the amount of RSD 292,771,368 thousand thus accounting for 78.19% of total liabilities (2016: 80.65%), followed by deposits and other liabilities to banks, other financial organizations and the central bank in the amount of RSD 5,523,420 thousand with a share of 1.48% (2016: 1.96%).

Total deposits to customers, banks and other financial organisations and the central bank amount to RSD 298,294,788 thousand and are lower compared to 2016 by RSD 32,161,534 thousand: transaction deposits are RSD 23,611,341 lower, while other deposits recorded a decrease of RSD 8,550,193 thousand.

Decrease in transaction deposits came as a result of reduction in RSD transaction deposits in the amount of RSD 25,308,287 thousand, while transaction deposits in foreign currency recorded a growth by RSD 1,696,946 thousand compared to 31.12.2016. The structure of transaction deposits is still dominated by deposits in local currency with a share of 58.61%, while the remaining 41.39% relate to deposits in foreign currency.

Other deposits are dominated by foreign currency deposits with a share of 94.57%, while dinar deposits account for 5.43%. Foreign currency savings have increased by EUR 38,69 million.

Borrowings

Borrowings, as part of the position deposits and other liabilities to banks and other customers, amount to RSD 8,904,095 thousand and with a share percentage in total liabilities of 2.38% it recorded a reduction relative to 2016 in the amount of RSD 4,123,077 thousand due to regular repayments and prepayments of foreign credit lines:

- regular repayments of GGF credit line of EUR 3,290 thousand,
- prepayments of EIB credit line of EUR 3,871 thousand and regular repayment of EUR 5,921 thousand,
- prepayment of EAR-Fund revolving credit line of EUR 155 thousand and regular repayments of EUR 474 thousand,
- regular repayment of the credit line from the Italian Government of EUR 931 thousand,
- regular repayment of KfW credit line of EUR 2,727 thousand and
- regular repayment of EBRD credit line of EUR 13,429 thousand

i.e. a total decrease in dinars of RSD 4,123,077 thousand compared to 31.12.2016.

As of 30.09.2017 the item borrowings from foreign banks relates to the liability to EBRD in the amount of RSD 2,830,677 thousand.

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

1. LEDIB 1 and 2 (Loan from Kingdom of Denmark) – RSD 4,423 thousand,
2. Government of the Republic of Italy – RSD 251,152 thousand,
3. European Investment Bank (EIB) – RSD 4,077,233 thousand,
4. European Agency for Reconstruction and Development (EAR) – RSD 112,894 thousand and
5. KfW – RSD 1,627,717 thousand.

3.16. Subordinated Liabilities

In accordance with the regulations of the National Bank of Serbia regarding capital requirements and implementation of Basel II standard, in 2011 the Bank strengthened its capital base by taking a subordinated loan from the International Finance Corporation. Subordinated liabilities as of 30.09.2017 amount to RSD 6,046,400 thousand and they comprise the subordinated loan in dinar equivalent of EUR 50,000 thousand or RSD 5,968,295 thousand reduced by the amount of accrued expenses for the liabilities stated at amortized value, by applying effective interest rate of RSD 2,109 thousand and accrued liabilities from interest of RSD 80,214 thousand. The loan was approved with a maturity date of 15 December 2017.

3.17. Provisions

Provisions in the amount of RSD 1,196,815 thousand consist of provisions for:

- coverage of liabilities (court disputes) in the amount of RSD 642,834 thousand,
- long-term employee salaries of RSD 442,516 thousand and
- provisions for losses on off-balance sheet assets of RSD 111,465 thousand.

Compared to 2016, in the reporting period there was a decrease in provisions in the amount of RSD 590,479 thousand as a result of a decrease in provisions for court disputes of RSD 271,003 thousand and a decrease in provisions for losses from off-balance-sheet assets of RSD 319,476 thousand.

Provisions for court disputes

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

Compared to 31.12.2016 there was a decrease in the total level of these provisions, in the amount of RSD 271,003 thousand.

The biggest part of the decrease relates to the payment of liability for one case on the basis of the court decision from May 2017 in the total amount of RSD 495,505 thousand.

For this case the Bank had allocated provisions for two items:

➢ provisions for court liabilities of	232,171 thousand dinars and
➢ provisions for losses from off-balance-sheet assets - guarantee of	260,686 thousand dinars
Total	**492,857** thousand dinars

that the Bank used fully for payment, while the remainder up to the full amount from the court decision of RSD 2,647 thousand was paid as an expense.

Of the total amount of provisions for court liabilities recognized as of 30.09.2017 in the amount of RSD 642,834 thousand, the most important item is the provision for the case with Interexport a.d. Beograd (in bankruptcy) – for covered letters of credit from 1991 in the amount of RSD 324,054 thousand or USD 1,946 thousand for the principal and USD 1,177 thousand for interest.

For another thirty-one court disputes the Bank has made provisions in the total amount of RSD 318,780 thousand.

3.18. Other liabilities

Other liabilities amounting to RSD 6,384,022 thousand are higher by RSD 236,453 thousand compared to 2016. Percentage of share of other liabilities in the total liabilities is 1.70% (2016: 1.54%). The most important items in other liabilities are: liabilities from profit amounting to RSD 2,507,577 thousand, liabilities from calculation of purchase and sale of foreign currency amounting to RSD 954,927 thousand, other liabilities from SPOT transaction of RSD 874,933 thousand, liabilities for net salaries charged to expenses of RSD 249,985 thousand, overpaid retail loans of RSD 174,794 thousand, liabilities for payment s with payment cards valid abroad (Visa, Master) in the amount of 165,056.

Of the total increase in other liabilities of RSD 236,453 thousand the single most important amount relates to the increase in other liabilities from SPOT transactions of RSD 121,937 thousand and liabilities for purchase and sale of foreign currency of RSD 90,621 thousand.

3.19. Capital

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

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

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

As at 30.09.2017 the Bank's capital consists of:

In RSD thousand	2017	2016
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from profit	11,061,535	18,791,828
Revaluation reserves	3,868,320	4,240,027
Unrealized losses based on securities available for sale	(3,927)	(5,087)
Actuarial gains	66,175	76,069
Reserves	14,992,103	23,103,237
Accumulated loss/profit	-	349,698
Profit/Loss	6,933,915	(8,063,183)
Balance as at date	**61,960,568**	**55,424,302**

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

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

Decision of the General Meeting of Shareholders No. 9760/2c of 27.04.2017 distributed a portion of retained earnings from previous years into dividends for preference shares of RSD 16,808 thousand (interest rate that applied was the one on savings deposits fixed to 12 months of 4.50%). Payment of dividends for preference shares will be made in accordance with the Law on Banks and the Bank's Dividend Policy.

Decision of the General Meeting of Shareholders of the Bank, passed at the same meeting of 27.04.2017 the loss from 2016 was covered with RSD 8,063,183 thousand in the following manner: at the expense of a portion of retained earnings from previous year in the amount of RSD 332,890 thousand and at the expense of the reserves from profit for estimated losses from balance-sheet assets in the amount of RSD 7,730,293 thousand.

Current profit of RSD 6,933,915 thousand is made up of the results from the current period of RSD 5,698,102 thousand and profit from gains from deferred taxes of RSD 1,235,813 thousand.

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

The capital adequacy ratio of the Bank as at 30.09.2017, calculated on the basis of the financial statements, equals 27.19 % having implemented the applicable decisions of the National Bank of Serbia for 2017.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 30.09.2017 the pecuniary part of capital is above the prescribed level.

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

The structure of the share capital – ordinary shares as at 30.09.2017 is as follows:

Shareholder's name	% of share
Republic of Serbia	41.74
EBRD, LONDON	24.43
IFC CAPITALIZATION FUND LP	10.15
DEG-DEUTSHE INVESTITIONS	4.60
SWEDFUND INTERNATIONAL	2.30
Jugobanka AD Beograd in bankruptcy	1.91
EAST CAPITAL (lux) BALKAN FUND	1.49
INVEJ DOO Beograd	1.37
UNICREDIT BANK Serbia	1.05
Dunav osiguranje	1.02
STANKOM DOO Beograd	0.70
GLOBAL MARCO CAPITAL OPPORTUNITIES	0.62
Evropa Osiguranje AD in bankruptcy	0.52
Other	8.10
	100.00

4. RELATIONS WITH SUBSIDIARIES

4. A . Balance as of 30.09.2017

RECEIVABLES In thousand RSD

Subsidiary	Loans and advances	Interest and fees	Other assets	Net	Off-balance	Total
1. Kom.banka AD Budva	6,618	906	-	7,524	-	7,524
2. Kom.banka AD Banja Luka	136,418	-	319	136,737	-	136,737
3. Kombank INVEST	-	117	-	117	200	317
TOTAL	**143,036**	**1,023**	**319**	**144,378**	**200**	**144,578**

LIABILITIES In thousand RSD

Subsidiary	Deposits and loans	Interest and fees	Other liabilities	Total
1. Kom.banka AD Budva	1,356,856	-	1,667	1,358,523
2. Kom.banka AD Banja Luka	237,171	-	-	237,171
3. Kombank INVEST	43	-	-	43
TOTAL:	**1,594,070**	**-**	**1,667**	**1,595,737**

INCOME AND EXPENSES for period 01.01 – 30.09.2017

In thousand RSD

Subsidiary	Interest income	Fee and commission income	Interest expenses	Fee and commission expenses	Net income / expenses
1. Kom.banka AD Budva	65	2,081	-	(628)	1,518
2. Kom.banka AD Banja Luka	2,958	2,709	-	(603)	5,064
3. Kombank INVEST	-	1,248	(102)	-	1,146
TOTAL:	**3,023**	**6,038**	**(102)**	**(1,231)**	**7,728**

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange gains amounting to RSD 39,014 thousand

4. Б. Balance as of 31.12.2016

RECEIVABLES

In thousand RSD

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

LIABILITIES

In thousand RSD

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

INCOME AND EXPENSES for period 01.01- 30.09. 2016

In thousand RSD

Subsidiary	Interest income	Fee and commission income	Interest expenses	Fee and commiss. expenses	Net income / expenses
1. Kom.banka AD Budva	73	2,529	-	(1,272)	1,330
2. Kom.banka AD Banja Luka	3,904	1,333	-	(484)	4,753
3. Kombank INVEST	-	884	(2)	-	882
TOTAL:	**3,977**	**4,746**	**(2)**	**(1,756)**	**6,965**

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange loss of RSD 7,838 thousand.

5. RISK MANAGEMENT

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

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

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

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

As of 30.06.2017 Bank implemented Basel III standard and undertook all necessary measures for timely reconciliation of its operations with newly enacted regulations in accordance with the risk level acceptable to the Bank. Through the clearly defined process of introducing new products, the Bank analyses the influence of all new services and products on the future risk exposures in order to optimize its revenues and losses based on the estimated risk as well as to minimize all potential adverse effects on the Bank's financial result.

Risk Management System

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

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

Risk Management Strategy sets out:

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

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

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

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

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

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

Policies for managing certain risk types define the following:

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

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

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

Competencies

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

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

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

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

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

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

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

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

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

Risk Management Process

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

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

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

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

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

Risk Types

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

5.1. Credit Risk

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

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

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

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

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

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

Credit Risk Management

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

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

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

The basic principles of credit risk management are as follows:

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

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

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

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

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

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

Basic credit risk alleviating techniques are:

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

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

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

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

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

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

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

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

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

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

Identification of problematic and restructured claims

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

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

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

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

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

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

The Bank grouping claims on restructured and non-restructured given that borrowers with granted concessions due to financial difficuiltes (restructured receivables) have different characteristics in terms of credit risk (different behavior) in relation to non-restructured receivables.

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

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

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

Downgrade Risk

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

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

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

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

Risk of Change in Value of Assets

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

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

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

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

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

Individual Assessment

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

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

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

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

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

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

In addition, the documents required as proof of the impairment of the loan are presented by the evidence for the assessment of the expected inflow from placement, which are primarily related to the documentation on planned future cash flows of the debtor.

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

Group Assessment

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

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

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

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

During 2017 the Bank improved methodology for group impairment percentages calculation whereby restructured receivables are allocated in separate group, PD for restructured receivables is calculated separatelly and in calculation of net-base is introduced discounting the market value of collateral (for mortgages and stocks) reduced by the haircut and non-application of desktop assessment of collateral.

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

Assessment of Provisions for Losses on Off-Balance Sheet Items

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

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

Means of protection against credit risk (collaterals)

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

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

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

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

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

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

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

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

5.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of September 30, 2017 and December 31, 2016 is presented in the table below without taking into account any collateral or any other sort of credit risk hedge. The stated values are presented in gross and net carrying amounts (after impairment effects).

Maximum Credit Risk Exposure before Collateral or any Other Improvements

	30.09.2017		31.12.2016	
	Gross	Net	Gross	Net
I. Assets	**410,800,968**	**374,458,967**	**442,110,850**	**400,017,469**
Cash and cash funds held with the central bank	54,058,982	54,058,982	55,153,209	55,153,209
Loans and receivables due from banks and other financial institutions	33,763,052	33,494,992	40,911,287	40,601,413
Loans and receivables due from customers	169,820,744	146,292,659	180,056,414	150,411,409
Financial assets	122,089,909	121,929,077	136,532,653	136,366,773
Other assets	8,815,366	6,098,302	8,901,845	6,252,855
Non-montary assets	22,252,915	12,584,955	20,555,442	11,231,810
II. Off-balance sheet items	**32,851,635**	**32,740,170**	**31,819,175**	**31,388,234**
Payment guarantees	3,368,083	3,338,089	3,635,706	3,572,933
Performance bonds	4,386,875	4,372,644	6,728,901	6,695,266
Irrevocable commitments	24,978,775	24,932,321	20,862,103	20,811,873
Other items	117,902	97,116	592,465	308,162
Total (I+II)	**443,652,603**	**407,199,137**	**473,930,025**	**431,405,703**

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

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

In thousand RSD

30.09.2017	Loans not matured and not impaired	Loans matured and not impaired	Collectively impaired	Individually impaired	Total gross	Group impairment	Individual impairment	Total impairment	Net
Housing Loans	-	-	36,609,888	953,293	**37,563,181**	301,145	439,568	**740,713**	**36,822,469**
Cash Loans	-	-	23,525,105	58,522	**23,583,627**	355,058	56,828	**411,886**	**23,171,741**
Agricultural Loans	-	-	7,092,401	105,104	**7,197,505**	92,448	51,129	**143,577**	**7,053,928**
Other Loans	-	-	5,565,576	641,300	**6,206,875**	72,344	641,300	**713,644**	**5,493,232**
Micro Business			7,730,371	652,567	**8,382,937**	186,134	267,910	**454,044**	**7,928,893**
Total Retail	**-**	**-**	**80,523,341**	**2,410,785**	**82,934,125**	**1,007,129**	**1,456,735**	**2,463,863**	**80,470,262**
Large corporate clients	-	-	32,856,114	20,717,082	**53,573,195**	329,120	16,531,363	**16,860,483**	**36,712,712**
Middle corporate clients	-	-	10,242,868	2,148,044	**12,390,912**	53,007	1,423,372	**1,476,379**	**10,914,533**
Small corporate clients	-	-	3,993,778	1,404,518	**5,398,296**	57,250	705,742	**762,992**	**4,635,304**
State owned clients	2,252,538	-	7,293,688	1,935,615	**11,481,842**	91,100	417,301	**508,400**	**10,973,441**
Other	-	-	2,586,461	1,455,913	**4,042,374**	54	1,455,913	**1,455,967**	**2,586,406**
Total Corporate	**2,252,538**	**-**	**56,972,908**	**27,661,172**	**86,886,619**	**530,531**	**20,533,691**	**21,064,222**	**65,822,397**
Total	**2,252,538**	**-**	**137,496,249**	**30,071,957**	**169,820,744**	**1,537,659**	**21,990,426**	**23,528,085**	**146,292,659**
Due from banks	**33,494,992**	**-**	**-**	**268,061**	**33,763,052**	**-**	**268,061**	**268,061**	**33,494,992**

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

In thousand RSD

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

Impaired Loans and Receivables

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

Receivables Matured but not Impaired

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

Receivables not Matured and not Impaired

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

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

5.1.2. Non-performing receivables

30.09.2017

In thousand RSD

	Gross exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percantage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**82,934,125**	**2,463,863**	**3,523,079**	**857,259**	**1,869,654**	**4,25%**	**2,499,609**
Housing Loans	37,563,181	740,713	1,645,555	423,596	616,055	4,38%	1,456,880
Cash Loans	23,583,627	411,886	295,236	27,558	204,155	1,25%	157,394
Agricultural Loans	7,197,505	143,577	204,483	21,572	90,907	2,84%	188,657
Other	6,206,875	713,644	652,992	-	640,956	10,52%	9,824
Micro Businesses	8,382,937	454,044	724,813	384,532	317,582	8,65%	686,853
Corporate	**86,886,619**	**21,064,222**	**27,762,664**	**21,962,620**	**20,545,477**	**31,95%**	**20,874,223**
Agriculture	5,916,242	181,398	231,259	40,328	130,191	3,91%	187,344
Manufacturing Industry	23,858,990	5,851,502	9,976,394	8,221,405	5,590,233	41,81%	9,385,979
Electric Energy	174,844	28,283	76,700	0	222	43,87%	76,700
Construction	4,641,638	1,113,577	1,158,805	1,025,532	1,108,007	24,97%	1,108,499
Wholesale and Retail	20,899,413	3,969,130	4,817,974	3,940,445	3,878,438	23,05%	4,219,393
Service Activities	14,981,553	2,462,509	2,786,750	2,782,341	2,405,220	18,60%	2,128,395
Real Estate Activities	1,498,276	693,532	1,351,275	959,905	692,485	90,19%	1,263,876
Other	14,915,661	6,764,291	7,363,506	4,992,665	6,740,681	49,37%	2,504,038
Total	**169,820,744**	**23,528,085**	**31,285,743**	**22,819,879**	**22,415,131**	**18,42%**	**23,373,831**
Due from banks	**33,763,052**	**268,061**	**268,061**	**-**	**268,061**	**0,79%**	**-**

31.12.2016

In thousand RSD

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

5.1.3. Non problematic receivables

In thousand RSD

	30.09.2017					31.12.2016				
	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of collaterals	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of collaterals
Housing Loans	35,693,250	224,356	21	35,917,626	35,177,659	36,697,560	568,687	5,520	37,271,767	36,280,871
Cash Loans	23,190,687	97,087	617	23,288,391	12,497,758	18,905,257	61,140	1,635	18,968,032	13,486,892
Agricultural Loans	6,962,845	30,085	93	6,993,022	5,982,344	6,054,901	24,463	2,586	6,081,950	5,549,102
Other Loans	5,521,090	29,877	2,916	5,553,883	133,004	5,194,917	40,824	4,046	5,239,787	160,510
Micro Businesses	7,172,024	388,328	97,773	7,658,124	8,746,316	6,095,662	288,095	192,331	6,576,088	7,684,003
Retail	**78,539,895**	**769,732**	**101,419**	**79,411,047**	**62,537,082**	**72,948,297**	**983,209**	**206,119**	**74,137,624**	**63,161,378**
Large corporate clients	29,954,412	2,901,702	-	32,856,114	43,553,393	28,720,712	4,027,940	-	32,748,652	40,339,321
Middle corporate clients	10,009,339	230,982	2,467	10,242,788	15,243,392	16,034,901	358,702	-	16,393,603	22,435,244
Small corporate clients	3,771,091	194,516	1,762	3,967,369	5,557,982	6,190,681	431,993	30,119	6,652,793	9,185,646
State owned clients	7,603,038	1,812,858	56,134	9,472,030	5,889,629	6,638,454	500,825	1,308,275	8,447,554	6,226,630
Other	-	2,585,354	300	2,585,654	3,426,013	216	4,027,641	421	4,028,278	4,872,186
Corporate Clients	**51,337,880**	**7,725,411**	**60,663**	**59,123,954**	**73,670,409**	**57,584,964**	**9,347,101**	**1,338,815**	**68,270,880**	**83,059,027**
Total	**129,877,776**	**8,495,143**	**162,082**	**138,535,001**	**136,207,491**	**130,533,261**	**10,330,310**	**1,544,934**	**142,408,504**	**146,220,405**
Due from banks	**33,494,991**	**-**	**-**	**33,494,992**	**485,993**	**40,601,413**	**-**	**-**	**40,601,413**	**223,425**

5.1.4. Restructured receivables

Measures implemented by the Bank during the restructuring of loans

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

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

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

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

5.1.5. Concentration Risk

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

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

5.2. Liquidity Risk

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

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

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

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

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

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

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

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Narrow liquidity ratio		Liquidity coverage ratio	
	30.09.2017.	31.12.2016.	30.09.2017.	31.12.2016.	30.09.2017.	31.12.2016.
As at	5.41	2.86	5.11	2.54	718%	596%
Average for the period	5.25	3.00	4.89	2.59	792%	
Maximum for the period	5.61	3.62	4.39	3.16	1000%	-
Minimum for the period	4.76	1.88	5.21	1.67	658%	-

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	30.09.2017.	31.12.2016.
GAP up to 1 month / Total assets	Max (10%)	4.15%	7.00%
Cumulative GAP up to 3 months / Total assets	Max (20%)	5.42%	10.02%

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

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

The Bank collects deposits of corporate and retail customers which commonly have shorter maturity periods and can be withdrawn at the client request. Short-term nature of such deposits increases the bank's liquidity risk and requires active liquidity risk management and constant monitoring of market trends.
In near term, the Bank manages liquidity risk by monitoring and controlling items in all major currencies in order to identify the needs for additional funding in a timely manner in case of maturities of certain items, i.e. in the long term, the Bank plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves.

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

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

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

5.3. Market Risk

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

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

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

5.3.1. Interest Risk

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

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

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

	Limits	30.09.2017.	31.12.2016.
Relative GAP	Max 15%	3.82%	1.33%
Mismatch ratio	0.75 – 1.25	1.05	1.02

During the third quarter 2017, interest rate risk ratios were within internally prescribed limits.

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

Compliance with internally defined limits of economic value of equity:

	30.09.2017.	31.12.2016.
As at	4.28%	4.61%
Average for the period	4.05%	4.58%
Maximum for the period	4.28%	5.03%
Minimum for the period	3.60%	3.96%
Limit	20%	20%

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

5.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

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

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

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

	30.09.2017.	**31.12.2016.**
Total currency risk balance	2,664,493	1,366,855
Currency risk ratio	5.41%	2.96%
Legally-defined limit	20%	20%

5.4. Operational Risk

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

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

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

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

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

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

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

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

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

5.5. The Bank's Investment Risks

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

5.6. Exposure Risk

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

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

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

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

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

5.7. Country Risk

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

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

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

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

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

5.8. Capital Management

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

The calculation of the amount of capital and capital adequacy ratios is reconciled with the Basel III regulatory standards as of June 30, 2017.

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

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

The Bank's regulatory capital represents the sum of the Tier 1 Capital (Common Equity Tier 1 - CET1 Capital and Additional Tier 1 Capital) and Tier 2 Capital, reduced for deductible items. The capital adequacy ratios represent the Bank's capital (total capital, Tier 1 capital and Common Equity Tier 1 capital) relative to the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries; risk exposure amount for settlement/delivery (except for free deliveries); risk exposure amount for market risks; risk exposure amount for operational risk; risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries are determined according to risk weights prescribed for all types of assets. Risk exposure amount for operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line.

Capital adequacy ratio		**In thousand RSD**
	30.09.2017.	**31.12.2016.**
Tier 1 Capital	55,019,245	44,667,035
Common Equity Tier 1 Capital	54,645,735	-
Additional Tier 1 Capital	373,510	-
Tier 2 Capital	297,434	4,175,529
Deductible items	(6.044.466)	(2,611,859)
Capital	**49,272,214**	**46,230,705**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	144,749,081	147,355,392
Risk exposure amount for operational risk	31,680,737	21,710,322
Risk exposure amount for market risks	4,778,472	2,338,631

Capital adequacy ratio (min 8%+6.48pp)	**27.19%**	**26.97%**
Tier 1 capital adequacy ratio (min 6% +6.48pp)	**27.03%**	**-**
Common Equity Tier 1 Capital adequacy ratio (min 4.5%+6.48pp)	**26.82%**	**-**

Note1: data as of September 30, 2017 and December 31, 2016 are not fully comparable due to calculations based upon different regulations (according to Basel II standard as of December 31, 2016 and according to Basel III standard as of September 30, 2017).
Note2:Capital Adequacz ratios shoud be increased by percentage for the total combined buffer requirement. As of September 30, 2017 the total combined buffer requirement amounts to 6.48%.

During the second quarter of 2017, the Bank's capital adequacy ratios were in excess of the prescribed regulatory limits.

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

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

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

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

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

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

Stages of the internal capital adequacy assessment include the following:

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

6. EVENTS AFTER THE BALANCE SHEET DATE

On 09.10.2017 the Bank collected a portion of its receivables from the bankruptcy estate of the client 14. Oktobar Kruševac, in the amount of RSD 246,913 thousand.

On the basis of the contract signed between the Bank and the Ministry of Finance of Republika Srpska on long-term loan in the amount of 50 million KM, on 16.10.2017 the Bank approved funds to the Ministry of Finance of Republika Srpska in the amount of EUR 25.56 million in dinar equivalent RSD 3,050,679 thousand, which is also the first loan contract that Republika Srpska has signed with a commercial bank outside Bosnia and Herzegovina.

In the period between 01.10.2017 and 27.10.2017 the Bank made two partial prepayments for credit line EIB Apex 4 IIC/NBS and Apex 5 IIIA/NBS in the total amount of EUR 590 thousand or in dinar equivalent approx. RSD 70,440 thousand.

Based on total claims amounting to USD 2,645 thousand from the liquidation estate of the Agency New York of Jugobanka in bankruptcy, the part of which was Komercijalna banka a.d. Beograd, on 31 October 2017 the Bank received the cheque for the amount of USD 602 thousand. The amount on the cheque was determined on the basis of the Decision of the Supreme Court of the State of New York and represents the total amount that the Bank is entitled to and the same shall be collectible within six months from the date on the cheque without the right of appeal to the Decision.

7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet positions in Dinars (RSD) on 30 September 017 and 31 December 2016 for certain main currencies are as follows:

Currencies	Official NBS rate	
	2017	2016
USD	101.3293	117.1353
EUR	119.3659	123.4723
CHF	104.3044	114.8473

In Belgrade,
on 24.10.2017

Persons responsible for drafting the financial statements

БЕОГРАД
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STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2017 to 30/09/2017 present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the IAS and IFRS, as published by January 1, 2009, which were translated and published in the Official Gazette, in October 2010, pursuant to the decision by the Finance Minister.

Persons responsible for the preparation of financial statements

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Executive Director for
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