KOMERCIJALNA BANKA

Meni najbliža

REPORT

OF THE BANK FOR THE THIRD QUARTER 2016

BELGRADE, NOVEMBER 2016

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The quarterly report for the third quarter of 2016 represents a reliable review of the development and performance of Komercijalna Banka ad Beograd achieved in the third quarter of 2016 and the first nine months of 2016.

PERFORMANCE REPORT OF THE BANK

FOR THE THIRD QUARTER OF 2016

BELGRADE, NOVEMBER 2016

1. REVIEW OF KEY PERFORMANCE INDICATORS FROM 01.01.2016 TO 30.09.2016

1.1. Bank's Performance Indictors

DESCRIPTION	30/09/16	31/08/16	31/07/16	30/06/16	31/03/16	2015	2014
BALANCE SHEET (000 RSD)							
Balance sheet assets	409,980,249	417,721,026	416,612,244	409,953,486	409,645,236	391,856,849	406,261,524
Off-balance sheet operations	548,930,066	600,366,454	595,781,376	580,186,744	577,265,398	580,407,210	373,803,974
RETAIL							
Loans[1]	75,714,194	75,262,008	74,762,202	74,264,151	72,609,866	70,784,957	69,039,387
Deposits[2]	227,436,617	226,347,925	226,572,622	226,039,019	221,189,992	218,836,847	207,430,548
CORPORATE							
Loans	81,398,985	81,485,795	83,993,095	82,241,658	87,231,841	89,204,275	112,768,251
Deposits	76,942,023	81,359,081	78,276,823	58,724,631	59,208,664	55,503,896	57,437,462

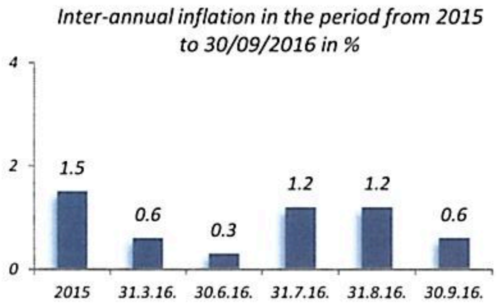
DESCRIPTION	30/09/16	31/08/16	31/07/16	30/06/16	31/03/16	2015	2014
INCOME STATEMENT (000 RSD)							
Profit/loss before taxation	-1,779,702	-1,913,427	-2,183,408	-2,645,550	1,403,008	-6,414,158	4,757,589
Net interest income	10,228,001	9,111,307	7,945,346	6,787,583	3,380,331	13,529,809	13,298,586
Net fee income	3,588,952	3,233,744	2,834,100	2,415,945	1,164,325	4,899,947	4,717,757
PROFITABILITY PARAMETERS							
ROA (%)	-0.58	-0.70	-0.92	-1.30	1.40	-1.62	1.25
ROE – on share capital	-5.93	-7.17	-9.35	-13.22	14.02	-16.02	11.88
ROE – on total capital	-3.88	-4.68	-6.08	-8.53	8.99	-9.35	7.05
Net interest margin on total assets (%)	3.33	3.34	3.34	3.34	3.37	3.42	3.49
Cost / income ratio (%)	58.46	58.28	58.60	59.12	58.18	58.60	59.65
Operating costs (000 RSD)[3]	8,077,613	7,194,873	6,316,577	5,440,907	2,644,003	10,799,510	10,745,910
Net expenses of indirect write-offs of placements and provisions (000 RSD)	7,385,488	6,917,397	6,495,614	6,246,223	492,099	13,008,527	2,725,389
Foreign exchange risk indicator	6.31	2.86	3.41	3.18	8.10	10.60	2.90
Liquidity indicator	2.97	3.40	2.84	2.86	3.32	2.73	2.84
Operating cash flows	8,149,103	7,302,953	5,986,137	5,446,337	2,691,591	7,819,613	7,121,339

DESCRIPTION	30/09/16	31/08/16	31/07/16	30/06/16	31/03/16	2015	2014
LOAN/DEPOSIT RATIO							
Gross loan/deposit	64.72	64.05	64.49	66.22	64.22	67.43	72.45
Net loan/deposit	53.05	52.61	53.09	54.70	54.33	57.19	66.33
CAPITAL (000 RSD)	59,679,502	59,259,614	58,963,158	58,507,482	62,786,680	61,456,734	69,546,804
Capital adequacy (%)	23.06	22.82	22.22	23.04	22.02	22.70	17.67
Number of employees	2,927	2,916	2,913	2,907	2,890	2,877	2,906
Assets per employee (000 EUR)	1,136	1,163	1,160	1,144	1,114	1,120	1,156
Assets per employee (000 RSD)	140,068	143,251	143,018	141,023	137,243	136,203	139,801

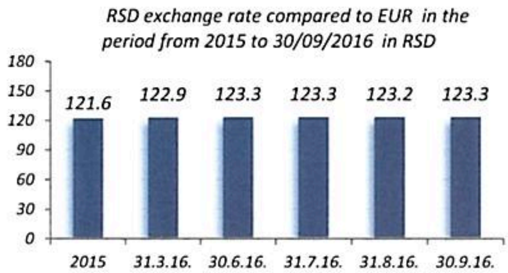
1 Loans (retail and corporate) do not include other placements and receivables
2 The Deposit item does not include other liabilities and funds received through credit lines
3 Operating costs include the costs of salaries, and tangible and intangible operating costs

2. MACRO-ECONOMIC OPERATING CONDITIONS FROM 01.01.2016 TO 30.09.2016

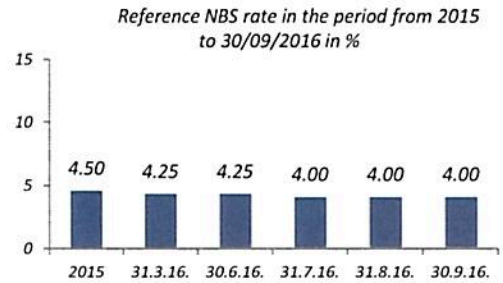
Trend of inflation movements below the lower limit of targeted deviations continued this year too, and at the end of the third quarter amounted to 0.6% yoy. Low inflation is the result of low aggregate demand and low inflation environment. In the coming period, we expect a moderate rise in inflation due to rising electricity prices, and the recovery of aggregate demand. The return of inflation within the target limits is expected in mid 2017 (NBS).



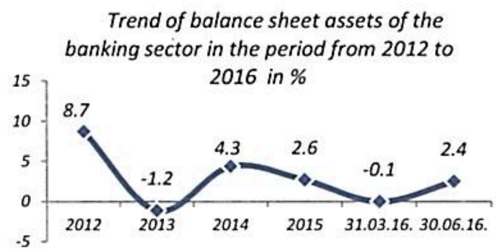
In the third quarter of this year, the dinar slightly depreciated against the euro. The dinar exchange rate has stabilized at levels of about 123 dinars for one euro. At the end of the third quarter of the current year there was a decline in the dinar exchange rate compared to the previous year by 1.4%.



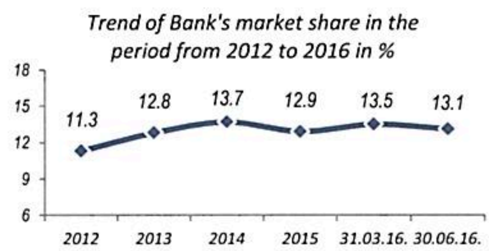
NBS reference interest rate has been lowered first in February this year to 4.25%, and then in July, further to a level of 4.00%. At the end of the third quarter benchmark interest rate was kept at the level of 4.00%, taking into account the expected inflation trend in the coming period and the expected return within the targeted limit. An important influence on the level of key rate reflects in the still present uncertainty in the international goods and financial markets, despite fiscal consolidation and structural reforms implemented that increase protection against the negative impact from the international environment.



The banking sector in Serbia registered a slight increase in balance sheet assets in the second quarter of 2016 (2.4%) compared to the previous year, which is an encouraging trend.



Due to the pre-privatization "cleansing" of non-performing loans and increase the NPL coverage by provisions to over 70%, during 2015, the Bank slightly decreased share in total balance sheet assets of the banking sector (-0.8 pp). During the first half of 2016, the Bank has slightly increased its market share by 0.2 pp reaching the level of 13.1%.



3. KEY PERFORMANCE INDICATORS OF THE BANK FROM 01.01.2016 TO 30.09.2016

DESCRIPTION	30/09/16	31/08/16	31/07/16	30/06/16	31/03/16	2015	2014
BALANCE SHEET (000 RSD)							
Balance Sheet assets	409,980,249	417,721,026	416,612,244	409,953,486	409,645,236	391,856,849	406,261,524
Off-balance sheet operations	548,930,066	600,366,454	595,781,376	580,186,744	577,265,398	580,407,210	373,803,974
RETAIL							
Loans	75,714,194	75,262,008	74,762,202	74,264,151	72,609,866	70,784,957	69,039,387
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Loans	81,398,985	81,485,795	83,993,095	82,241,658	87,231,841	89,204,275	112,768,251
Deposits	76,942,023	81,359,081	78,276,823	58,724,631	59,208,664	55,503,896	57,437,462

On the 30.09.2016 the balance sheet assets amounted to 409,980.2 million and increased by 18,123.4 million dinars or 4.6% compared to the end of 2015.

Off-balance sheet assets decreased in 2016, and at the end of September of the current year amounted to 548,930.1 million dinars. Decrease in off-balance operations amounted to 31,477.1 million dinars or 5.4%.

In the first nine months of 2016, the bank has lowered the debt taken on the basis of credit lines in the amount of 5,393.6 million dinars, which represents a decrease compared to the realization at the end of 2015 (-21.5%). In the reporting period the Bank achieved growth in deposits (excluding other liabilities and lines of credit) in the amount of 23,763.7 million dinars or 8.2%. In the structure of these changes, retail deposits increased by 8599.8 million (3.9%), and deposits of legal entities in the amount of 21,438.1 million dinars (38.6%). At the end of the third quarter, the Bank recorded a slight increase of disbursed loans (excluding other loans and receivables) in the amount of 610.1 million dinars or 0.4%. The effect of the depreciation of the dinar against the euro (1.4%) and Swiss franc (1.2%) was included in these changes.

DESCRIPTION	30/09/16	31/08/16	31/07/16	30/06/16	31/03/16	2015	2014
INCOME STATEMENT (000 RSD)							
Profit/loss before taxation	-1,779,702	-1,913,427	-2,183,408	-2,645,550	1,403,008	-6,414,158	4,757,589
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PROFITABILITY PARAMETERS							
ROA (%)	-0.58	-0.70	-0.92	-1.30	1.40	-1.62	1.25
ROE – on share capital	-5.93	-7.17	-9.35	-13.22	14.02	-16.02	11.88
ROE – on total capital	-3.88	-4.68	-6.08	-8.53	8.99	-9.35	7.05
Net interest margin on total assets (%)	3.33	3.34	3.34	3.34	3.37	3.42	3.49
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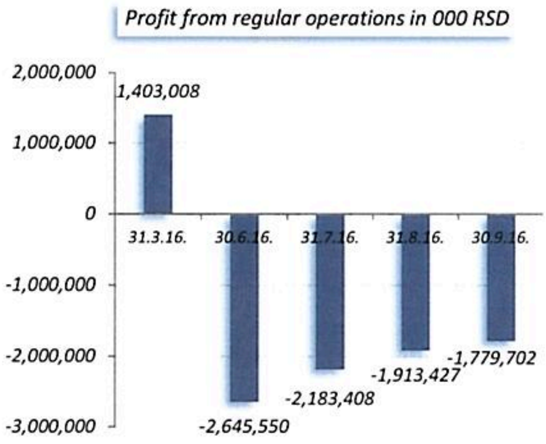
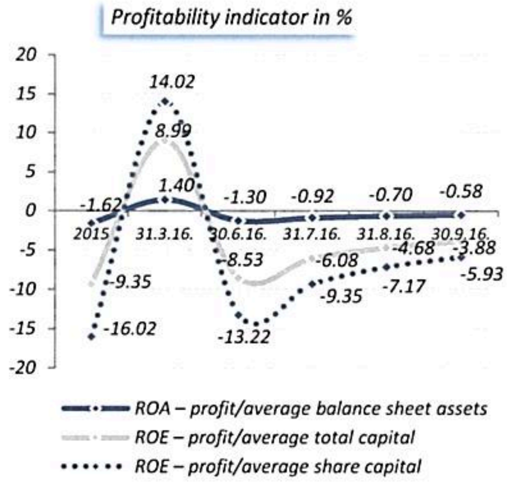




At the end of the third quarter of 2016, Komercijalna Banka had positive operating results and generated the net income of 5.6 billion dinars; this was the result before the adjustments of the loan portfolio.
In the period from June to September of the current year, the Bank has implemented additional settling of the loan portfolio which resulted in the growth of expenditure for impairment of financial assets and off-balance sheet credit risk items, thus declaring total net expenditure resulting from impairments in the amount of 7385.5 million for the first nine months. The aforementioned cleaning the loan portfolio resulted in realized losses for the nine months of 2016 (1,779.7 million dinars), but also in the reduced loss of 865.8 million dinars compared to the first half of this year. Despite the loss, the Bank remains highly capitalized and stable with a capital adequacy of 23.06%, which is significantly above the regulatory limit (12.00%), which is why the additional settlement of risk assets will not have a negative impact on future business. At the end of the third quarter, the bank had the reserves allocated from profit to the amount of 18,791.8 million dinars, which exceeded the total amount of required reserves for estimated losses calculated according to the NBS regulations by 5,679.7 million dinars (13,112.2 million dinars). In the observed period, the Bank achieved all performance parameters above the limits prescribed by the Law on Banks and fulfilled all obligations, this being a reliable indicator of a stable and safe operation.

At the end of the third quarter, like as at the end of the second, the result of the Bank compared to the same period last year was mostly affected by the aforementioned increase in net expenses of indirect write-offs and provisions to the amount of 3,658.4 million dinars or 98.2%, a slight decrease net interest income to the amount of 70.0 million dinars (0.7%), decrease in other operating income to the amount of 128.4 million dinars (37.3%) and a decrease in net fee income of 29.5 million dinars (0.8%). The increase in net income from financial assets held for trading amounting to 42.4 million dinars excels among the positive performance effects.

Increased indicator of assets per the number of KB employees pointed out to the growth of business. In the first nine months of the current year KB's assets per employee increased from 136.2 million dinars (31.12.2015) reaching the amount of 140.1 million dinars as at 30.09.2016.

At the end of the third quarter of 2016, "Cost income ratio" (CIR) amounted to 58.46%, while at the end of 2015 it came to 58.60%.

4. BANLANCE SHEET AS AT 30.09.2016

4.1. KB's Assets as at 30.09.2016

(In 000 RSD)

No.	DESCRIPTION OF BALANCE ITEM	30/09/2016	31/12/2015	INDEX
1	2	3	4	5=3/4
1.	Cash and assets held at the central bank	62,128,734	63,523,715	97.80
2.	Pledged financial assets	-	-	-
3.	Financial assets at a fair value through income statement intended for trade	403,699	851,056	47.44
4.	Financial assets initially recognised at a fair value through the income statement	-	-	-
5.	Financial assets available for sale	131,000,935	127,173,383	103.01
6.	Financial assets held to maturity	-	-	-
7.	Loans and receivables from banks and other financial organisations	36,959,418	16,844,000	219.42
8.	Loans and receivables from clients	158,473,809	162,742,565	97.38
9.	Changes of fair values of items that are the subject of risk protection	-	-	-
10.	Receivables based on financial derivatives intended for risk protection	-	-	-
11.	Investments in affiliated companies and joint ventures	-	-	-
12.	Investments in subsidiary companies	5,480,888	5,480,888	100.00
13.	Intangible assets	365,826	216,830	168.72
14.	Property, plant and equipment	5,929,448	6,139,572	96.58
15.	Investment property	2,704,323	2,744,026	98.55
16.	Current tax assets	-	37,017	-
17.	Deferred tax assets	212,833	-	-
18.	Fixed assets held for sale and assets of discontinued operations	63,314	63,314	100.00
19.	Other assets	6,257,022	6,040,483	103.58
	TOTAL ASSETS (from A1. to A19.)	**409,980,249**	**391,856,849**	104.63

At the end of Q3 2016, KB's balance sheet assets increased by 18,123.4 million dinars or 4.6% compared to the end of last year.
Increase in loans and advances to banks and other financial institutions stands out in the structure of the balance sheet assets (according to the new balance sheet chart), which demonstrated an increase of 20,115.4 million dinars, or 119.4%. In addition, increased position of the funds available for sale also attracts attention, since this position increased during the third quarter of the current year to 3,827.6 million dinars or 3.0%.

At the end of Q3 2016, total loans and advances to customers, banks and other financial institutions amounted to 195,433.2 million dinars, accounting for 47.7% of total assets of the Bank.

During the first nine months of 2016, cash and balances with the Central Bank recorded a decrease to the amount of 1,395.0 million dinars or 2.2%.

4.2. KB's Liabilities as of 30.09.2016

(In 000 RSD)

No.	DESCRIPTION OF BALANCE SHEET ITEM	30/09/2016	31/12/2015	INDEX
1	2	3	4	5=3/4
1.	Financial liabilities at a fair value through income statement held for trade	1,161	-	-
2.	Financial liabilities initially recognized at a fair value through income statement	-	-	-
3.	Liabilities based on financial derivatives intended for risk protection	-	-	-
4.	Deposits and other liabilities towards banks, other financial organizations and the central bank	13,137,441	17,159,317	76.56
5.	Deposits and other liabilities towards other clients	322,346,281	300,005,903	107.45
6.	Changes of fair value items that are subject of risk protection	-	-	-
7.	Issued Bank's own securities and other borrowed means	-	-	-
8.	Subordinated liabilities	6,239,022	6,077,962	102.65
9.	Provisions	2,180,780	2,109,020	103.40
10.	Liabilities based on assets intended for sale and assets of discontinued operations	-	-	-
11.	Current tax liabilities	-	-	-
12.	Deferred tax liabilities	334,416	127,545	262.19
13.	Other liabilities	6,061,646	4,920,368	123.19
	TOTAL LIABILITIES (from P 1. to P 13.)	**350,300,747**	**330,400,115**	106.02
	CAPITAL			
14.	Share capital	40,034,550	40,034,550	100.00
15.	Bank's own shares	-	-	-
16.	Profit	8,071	179,550	4.50
17.	Loss	1,779,702	6,299,631	-
18.	Reserves	21,416,583	27,542,265	77.76
19.	Unrealized losses	-	-	-
20.	Non-controlling interest	-	-	-
21.	**TOTAL CAPITAL (from P14. to P20.)**	**59,679,502**	**61,456,734**	97.11
	TOTAL LIABILITIES (from P1. to P20.)	**409,980,249**	**391,856,849**	104.63

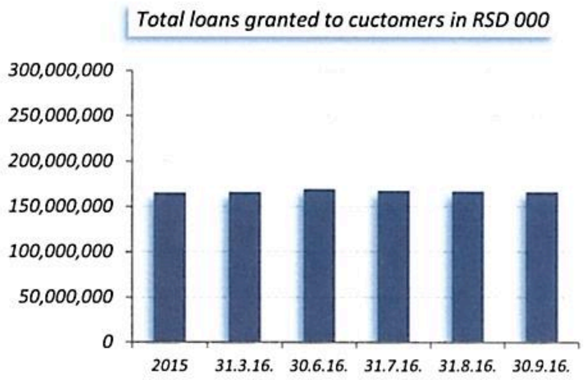
Total liabilities at the end of September amounted to 350,300.7 million dinars and account for 85.4% of the total BS liabilities (31.12.2015: 84.3%). Compared to the last year end, total liabilities increased by 19,900.6 million dinars, or 6.0%. Total KB's capital of 59,679.5 million dinars participates in the total liabilities with 14.6% (31.12.2015: 15.7%), and was reduced by 1,777.2 million dinars or 2.9%.

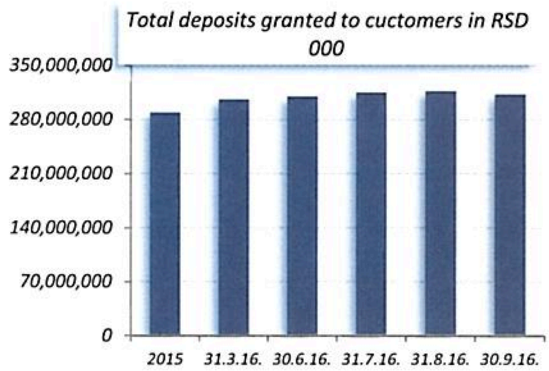
Position of deposits and other liabilities to other customers increased in the reporting period by 22,340.4 million dinars or 7.5%, while the position of deposits and other liabilities to banks, other financial institutions and central bank reduced compared to the end of last year by 4,021.9 million dinars or 23.4%. Position – other liabilities increased by 1,141.3 million dinars or 23.2%. Subordinated liabilities to the amount of EUR 50.0 million were withdrawn by the end of 2011 in order to increase the regulatory capital.

During the nine months of 2016, the Bank has reduced credit lines in the net equivalent of 5,393.6 million dinars through pay back of some of the foreign credit lines that have in the meantime become uncompetitive.
Balance of the respective liabilities as of 30.09.2016 accounted for 19,740.5 million dinars, which was 21.5% decrease since the beginning of this year.

In the structure of balance sheet liabilities, total deposits and other liabilities of banks, other financial institutions, central bank and other customers amounted to 335,483.7 million dinars, which makes 81.8% of total balance sheet liabilities, thereby recording an increase compared to the beginning of the year of 18,318.5 million dinars or 5.8%.

4.3. Loans and Deposits Granted to Customers as of 30.09.2016





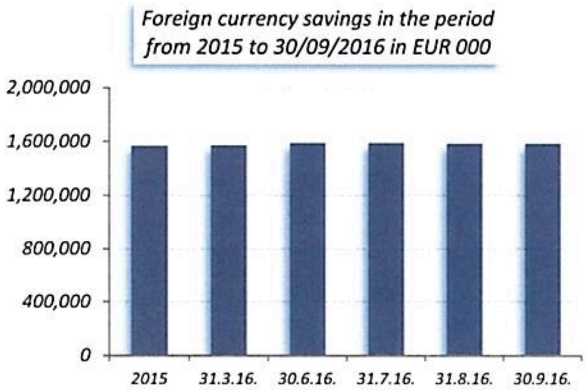
Loans granted (other loans and receivables excluded), the most risky category of assets, recorded the increase of 610.1 million dinars or 0.4%. At the end of Q3 2016, the amount of loans granted was under considerable impact of loans to banks and other financial institutions, which, at the end of September reached the amount of 9,039.0 million dinars, resulting in the growth of 3,486.2 million dinars or 62.8%. At the same time, the growth was also achieved in retail loans that accounted for 4,929.2 million dinars or 7.0%. On the other hand, corporate loans decreased by 7,805.3 million dinars or 8.7%. Total loans to customers and banks accounted for 166,152.2 million dinars at the end of Q3 2016, i.e. increased compared to the end of the last year by 0.4%.

(In 000 RSD)

No.	DESCRIPTION	BALANCE AS OF 30/09/2016	BALANCE AS OF 31/12/2015	INDEX
1	2	3	4	5= (3:4)*100
I	LOANS GRANTED TO CUSTOMERS (1. +2. +3.)	**166,152,187**	**165,542,078**	100.37
1.	Corporate customers	81,398,985	89,204,275	91.25
2.	Retail customers	75,714,194	70,784,957	106.96
3.	Banks and financial organisations	9,039,008	5,552,846	162.78
II	DEPOSITS RECEIVED FROM CUSTOMERS (1. +2. +3.)	**313,226,716**	**289,462,989**	108.21
1.	Corporate customers	76,942,023	55,503,896	138.62
2.	Retail customers	227,436,617	218,836,847	103.93
3.	Banks and financial organizations	8,848,076	15,122,245	58.51

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

Changes in deposits (other liabilities and credit lines excluded) during the first nine months of 2016 was largely under the influence of increased corporate deposits (21,438.1 million dinars) and increase in retail deposits (equivalent value of 8.599,8 million dinars). Deposits of banks and other financial institutions recorded decrease (equivalent value of 6,274.2 million dinars). In the past nine-month period, as a part of these changes, retail FX savings increased by 15.5 million euros.



In the observed period, the Bank managed to increase retail FX savings deposits by 15.5 million euros or 1.0%, whereby greatly contributed by KB's reputation of a safe and stable bank in the Serbian market.

Continuation of economic reforms, low average wages, had no impact on the changes to retail FX savings, during the nince months of this year it increased in spice of all referred to above and reached the sum of 1,585.3 million euros.

Savers' confidence facilitated KB to keep its leading place within the banking sector of the Republic of Serbia according to the level of raised foreigne currency savings, image and recognition.

4.4. Commission Operations and Off-Balance Items in 2016

(In 000 RSD)

No.	DESCRIPTION	BALANCE AS OF 30/09/2016	BALANCE AS OF 31/12/2015	INDEX
1	2	3	4	5=(3:4)*100
I	**OPERATIONS FOR AND ON BEHALF OF (commission operations)**	**4,434,297**	**4,444,445**	99.77
II	**POTENTIAL LIABILITIES**	**31,727,383**	**27,973,028**	113.42
1.	Payable guarantees	3,980,447	4,702,206	84.65
2.	Performance guarantees	6,525,048	6,453,308	101.11
3.	Unused assumed liabilities	20,854,353	16,245,267	128.37
4.	Other off-balance sheet items classified	299,872	518,082	57.88
5.	Uncovered letters of credit	67,662	54,165	124.92
III	**OFF-BALANCE SHEET ITEMS NOT CLASSIFIED**	**512,768,387**	**547,989,736**	93.57
1.	Foreign currency savings bonds	1,498,531	2,774,418	54.01
2.	Securities in depository	220,057,465	243,310,380	90.44
3.	Other off-balance sheet items	291,212,390	301,904,938	96.46
	TOTAL (I +II+III)	**548,930,066**	**580,407,210**	94.58

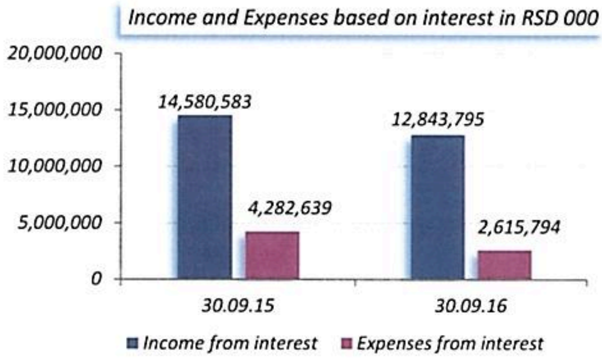
On 30.09.2016, total off-balance items classified account for 31,727.4 million dinars in total, which is an increase by 3,754.4 million dinars or 13.4% compared to the last year-end, mostly due to the increase in unused extended liabilities (4,609.1 million dinars) and to a lesser extent performance guarantees (71.7 million dinars).

5. P&L STATEMENT FROM 01.01 TO 30.09.2016

(In 000 RSD)

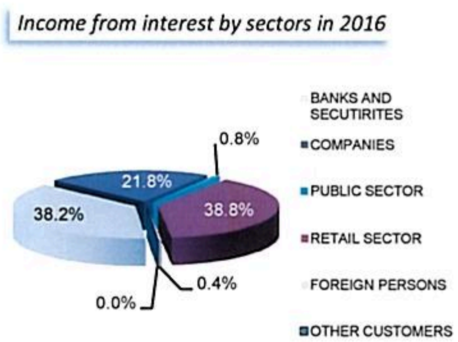
No.	DESCRIPTION OF BALANCE SHEET ITEM	30/09/2016	30/09/2015	INDEX
1	2	3	4	5=(3:4)*100
	INCOME AND EXPENSES FROM ORDINARY OPERATIONS			
1.1.	Income from interest	12,843,795	14,580,583	88.09
1.2.	Expenses from interest	2,615,794	4,282,639	61.08
1.	**Net income/expense based on interest**	**10,228,001**	**10,297,944**	99.32
2.1.	Income from fees and commissions	4,570,873	4,428,391	103.22
2.2.	Expenses from fees and commissions	981,921	809,945	121.23
2.	**Net income/expense based on fees and commissions**	**3,588,952**	**3,618,446**	99.18
3.	Net profit/losses based on financial assets held for trading	46,748	4,337	1,077.89
4.	Net profit/loss based on hedging			-
5.	Net gain/loss based on financial assets which are initially recognized at fair value through income statement			-
6.	Net profit/loss based on financial assets available for sale	-53,675	3,363	-
7.	Net income/expense from exchange rate differences and the effects of foreign currency clause	-5,492	-28,767	19.09
8.	Net profit/loss based on investments in associated companies and joint ventures	5,143		-
9.	Other operating income	215,929	344,375	62.70
10.	Net income/expense based on impairment of financial assets and the credit risky off-balance sheet items	-7,385,488	-3,727,046	198.16
11.	**TOTAL NET OPERATING INCOME**	**6,640,118**	**10,512,652**	63.16
12.	**TOTAL NET OPERATING EXPENSE**			-
13.	Salaries, fees and other personal expenses	3,237,684	3,087,515	104.86
14.	Depreciation costs	515,030	610,814	84.32
15.	Other expenses	4,667,106	5,509,616	84.71
16.	**PROFIT BEFORE TAX**		**1,304,707**	-
17.	**LOSS BEFORE TAX**	**1,779,702**		-
18.	Income tax			-
19.	Profit based on deferred taxes			-
20.	Loss based on deferred taxes			-
21.	**PROFIT AFTER TAX**		**1,304,707**	-
22.	**LOSS AFTER TAX**	**1,779,702**		-
23.	Net profit related to suspended operations			-
24.	Net loss related to suspended operations			-
25.	**RESULT OF THE PERIOD - PROFIT**		**1,304,707**	-
26.	**RESULT OF THE PERIOD - LOSS**	**1,779,702**		-
27.	Profit attributable to the parent entity			-
28.	Profit attributable to owners of non-controlling interests			-
29.	Loss attributable to the parent entity			-
30.	Loss attributable to owners of non-controlling interests			-
31.	Earnings per share			-
32.	Basic earnings per share			-
33.	Reduced (diluted) earnings per share			-

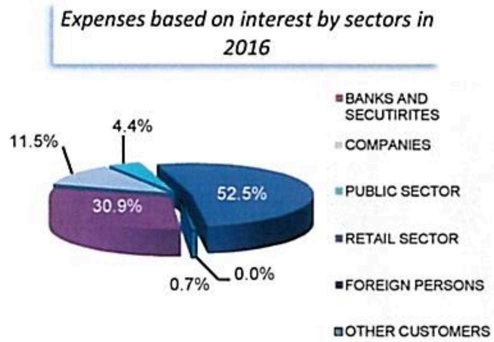
5.1. Interest Income and Expenses



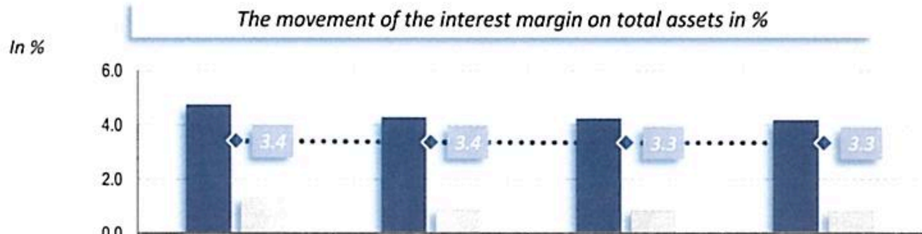
In the period 01.01 to 30.09.2016, interest income accounted for 10,228.0 million dinars, 0.7% decrease compared to the same period last year.

KB's interest income decreased by 1,736.8 million dinars or 11.9% compared to the same period last year, while interest expenses decreased 1,666.8 million dinars or 38.9%.





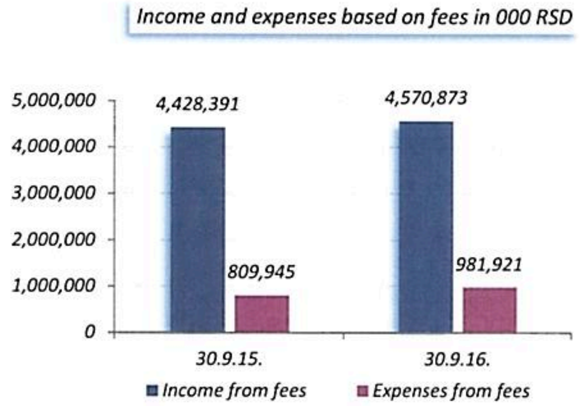
As part of the interest income, the share of the interest income from retail transactions (4,986.7 million dinars or 38.8%) and the share of interest income from securities transactions (4,912.8 million dinars or 38.2%) are almost the same. In interest expenses, interest on retail deposits stand out (1,372.6 million dinars or 52.5%), for the most part resulting from interest expenses originating from raised retail FX savings.



	2015	march	june	september
Average lending interest rate	4.8	4.3	4.2	4.2
Average deposit interest rate	1.3	0.9	0.9	0.9
Average interest margin	3.4	3.4	3.3	3.3

Average lending interest rate at the end of Q3 2016 was 4.2%, and the average debit interest rate came to 0.9%, so that the average interest margin of KB totalled 3.3% at the end of Q3 2016, and did not change compared to the Q2.

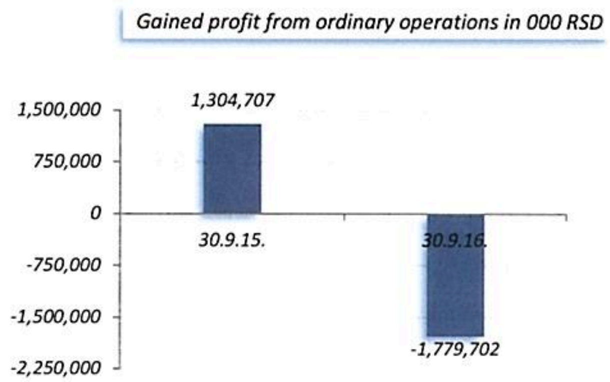
5.2. Income and Expenses Based on Fees



Compared to the same period last year, income from fees and commission for banking services is higher by 142.5 million dinars or 3.2%, but the expenses of this same position also increased by 172.0 million dinars or 21.2%.

Profit from fees and commission in the first nine months of 2016 amounted to 3.589,0 million dinars and was by 0.8% lower compared to the same period last year.

5.3. Profit Generated from Ordinary Operations



Due to the "cleansing" of non-performing loans through increased coverage of NPL by provisions in the past year, the Bank entered 2016 with a significantly higher quality loan portfolio. Due to the need of implementation of additional impairment of balance sheet assets and provisions for losses on off-balance sheet assets, during the period from 01 January to 30 September 2016 KB recorded operating loss to the amount of 1,779.7 million dinars. In the same period the previous year, KB achieved profit of 1,304.7 million dinars.

The process of settling of the loan portfolio and growth in impairments continued in the second and third quarter of the current year, as did the preparations for the implementation of IFRS 9, all of which affected the business performance of KB as at 30.09.2016.

PERRORMANCE INDICTATORS PRESCRIBED BY THE LAW ON BANKS

No.	DESCRIPTION	PRESCRIBED	30/09/2016	2015
1.	CAPITAL ADEQUACY INDICATOR (NET CAPITAL / CREDIT RISK + OPERATIONAL RISKS + OPEN FX POSITION)	MIN. 12%	23.06	22.70
2.	INDICATOR OF INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR AND FIXED ASSETS	MAX. 60%	20.90	23.13
3.	INDICATOR OF THE BANK`S LARGE EXPOSURE	MAX. 400%	37.88	79.76
4.	FOREIGN EXCHANGE RISK RATIO	MAX. 20%	6.31	10.60
5.	LIQUIDITY RATIO	MIN. 0.8	2.97	2.73

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

A detailed outline of the main risks and threats to which the Bank is exposed in the future is provided in the section "Risk Management", Note to the Financial Statements.

7. ALL IMPORTANT TRANSACTIONS WITH RELATED PERSONS

As of 30.09.2016, the persons related to KB 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. Three legal entities (Lasta doo Sombor, Menta doo Niš, GP Kompani doo Kraljevo) and growing number of individuals, according to the provisions of Article 2 of the Law on Banks in the part that regulates the term "persons related to bank".

Total exposure to persons related to the Bank on 30.09.2016 amounted to 525,885.1 thousand dinars, as compared to the capital of 41,324,818.3 thousand dinars accounted for 1.27% (maximum value of total loans to all persons related to the Bank under the Law on Banks amounts to 25% of the capital).

As of 30.09.2016, the largest part of the exposure to persons related to the Bank to the amount of 519,064.3 thousand dinars or 1.26% of KB's capital, referred to loans to natural persons that fall into the group of related persons.

Pursuant to the Article 37 of the Law on Bank, 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 EXPIRY OF FISCAL YEAR

Upon completion of the semi-annual business, of the most important business events, we single out holding of the regular session of the General Meeting of Bank's Shareholders on 26.07.2016, when the following decision was adopted:

1. Decision on Appointment of Bank's 2016 External Auditor

Description of events after the balance sheet date is presented in Section 6 "Events After the balance sheet", Notes to the financial statements for the third quarter of 2016.

9. KEY INFORMATION ABOUT ACHIEVEMENT OF 2016 BUSINESS PLAN

In the first nine months of 2016, implementation of the Strategy and Business Plan 2016-2018 unfolded within the following macro-economic operating conditions, of which we particularly single out the following:

- GDP growth of 2.0% in the second quarter of 2016 compared to the same period of the previous year (Statistical Office of the Republic of Serbia), the revised plan for the full year resulted in the growth of 2.5% (NBS and MF RS),

-stable dinar exchange rate movements around the level of 123 dinars for one euro (exchange rate of the dinar against the euro-planned at the end of the current year: 1 euro = 122.50 dinars (KB), and the value achieved on 30.09.2015 was: 1 euro = 123.2929 RSD),

-inflation rate of 0.6% (yoy, September 2016./September 2015) has a downward trend and is currently below the targeted level for September of this year (4.0 +/- 1.5%) and 0.5 pp above the historical minimum, which was achieved in January 2015 (0.1% yoy).

Acceleration of growth in economic activity is expected in 2016, due to the presence of macroeconomic stability, the relaxation of monetary policy, improvements in the business environment, initiated structural adjustment, structural reforms and the recovery of external and domestic demand. Original projections of GDP for 2016 have been adjusted upward to 2.5%, which is 0.7 percentage points more than the November estimates (1.8%). In contrast to the first quarter of this year, when the GDP growth of 3.5% yoy, in the second quarter, growth slowed to 2.0% mainly due to the repairs of the power plants which resulted in decreased production in mining and energy sectors. Growth was recorded in the manufacturing and service sector, a positive contribution was provided by the agriculture. In order to improve credit activity of the banking sector, by the end of last year and early this year, NBS has partially mitigated monetary conditions through the required reserves allocation rate. The foreign currency required reserves allocation rates were reduced by a total of 6 percentage points since September 2015. Steady inflow of foreign direct investments in 2016 continued, which provided coverage of the deficit in the current balance of payments, and in January-August of the current year amounted to about EUR 1,200.9 million[4]. The inflow of foreign direct investment particularly increased in the financial services, telecommunications and real estate. The growth of economic activity and falling interest rates have influenced the continued recovery of credit activity of the banking sector this year. In August this year, real growth of domestic credits on the sector's level was about 4.0%[5] yoy. Cash and refinancing loans stand out in the retail sector, while liquidity and investment loans predominate in the corporate sector. By the end of this year we can expect further increase in lending activity, followed by disburdening of the monetary policy, increasing competition amongst the banks and increased loan demand. In addition to the growth in newly extended loans, the growth of total retail savings (both FX and RSD) was recorded from January to August of this year.

9.1. Projected and Generated Values of Balance Sheet for the Third Quarter of 2016

KB's total balance sheet assets at the end of the third quarter of 2016 amounted to 409,980.2 million dinars, compared with the planned value for the end of the year increased by 12,812.8 million dinars or 3.2%. Significant positive differences between achieved and planned values are recorded in loans to banks and other financial institutions (excluding other receivables), achievement in this position increased by 3,806.1 million dinars or 72.7% of the planned size, followed by cash and balances with central banks with the achieved higher than planned by 2,631.6 million dinars or 4.4%. Also, retail loans, which increased by 1,362.2 million dinars or 1.8% compared to the planned value.
Decreased achieved value in relation to the planned was recorded in the position of loans to corporate entities, with the achieved value lower by 10,653.0 million dinars or 11.6% compared to the projection, as a result of impairments and receivables - gross impairments in the first nine months of this year amounted to 14,351.4 million dinars.

In the structure of balance sheet liabilities positive deviation from the planned values were achieved in the positions of deposits (18,064.6 million dinars, excluding other liabilities and withdrawn credit lines), which was mostly contributed by the growth in corporate deposits (13,537.7 million dinars), retail deposits growth (an increase of 4,577.6 million dinars). Position of other liabilities also recorded growth in relation to the projection by 938.2 million dinars. Negative deviation was reported in the position of deposits from banks and other financial institutions - decreased achievement in relation to projection to the amount of 50.7 million dinars.

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[4] The National Bank of Serbia.
[5] Macro-economic trends in Serbia , October 2016, National Bank of Serbia.

Dinar exchange rate movements - depreciation (1.4% compared to the EUR), to a certain extent increased the deviation of the achieved compared to the projected sizes.

Achieved and projected positions of assets and liabilities in the balance sheet as at 30.09.2016 have the following values:

(In 000 RSD)

No.	ITEM	Plan 31/12/2016	Achieved 30/09/2016	INDEX
1	2	3	4	5=4/3*100
	ASSETS			
1.	**Cash and assets held at the central bank**	**59,497,150**	**62,128,734**	104.42
2.	Securities	130,629,026	131,404,634	100.59
3.	**Granted loans (3.1. +3.2. +3.3.)**	**171,636,933**	**166,152,187**	96.80
3.1.	Corporate customers	92,051,990	81,398,985	88.43
3.2.	Retail customers	74,352,000	75,714,194	101.83
3.3.	Banks and financial organizations	5,232,943	9,039,008	172.73
4.	**Other assets**	35,404,332	50,294,695	142.06
5.	**TOTAL ASSETS (1. +2. +3. +4.)**	**397,167,441**	**409,980,249**	103.23
	LIABILITIES			
1.	**Deposits**	**295,162,125**	**313,226,716**	106.12
1.1.	Corporate customers	63,404,318	76,942,023	121.35
1.2.	Retail customers	222,859,000	227,436,617	102.05
1.3.	Banks and financial organizations	8,898,808	8,848,076	99.43
2.	**Other liabilities**	36,135,877	37,074,032	102.60
3.	**Total liabilities (1. +2.)**	**331,298,003**	**350,300,747**	105.74
4.	**Total capital**	**65,869,439**	**59,679,502**	90.60
5.	**TOTAL LIABILITIES (3. +4.)**	**397,167,441**	**409,980,249**	103.23

9.2. Projected and Achieved Values of P&L Statement for the period from 01.01 to 30.09.2016

(In 000 RSD)

No.	ITEM	Plan 01/01/-30/09/2016	Achieved 01/01/-30/09/2016	INDEX
1	2	3	4	5=4/3
1.1.	Income from interest	12,773,108	12,843,795	100.55
1.2.	Expenses from interest	2,693,923	2,615,794	97.10
1.	**Profit from interest (1.1.-1.2.)**	**10,079,185**	**10,228,001**	101.48
2.1.	Income from fees and commissions	5,090,136	4,570,873	89.80
2.2.	Expenses from fees and commissions	928,500	981,921	105.75
2.	**Profit from fees and commissions (2.1. -2.2.)**	**4,161,636**	**3,588,953**	86.24
3.	Net exchange rate difference and change of value (currency clause)	75,000	-5,492	-
4.	Other net operating incomes and expenses	448,500	-128,063	-
5.	Net expenses/incomes from indirect write-off of placements and provisions	-2,862,000	-7,385,488	258.05
6.	Operational expenses	8,035,500	8,077,613	100.52
7.	**PROFIT FROM REGULAR OPERATIONS**	**3,866,821**	**-1,779,702**	-

In terms of the P&L statement positions, significant deviation is recorded in net impairment expenses (achieved value higher than planned by 4,523.5 million dinars) and fees and commissions income (achieved value lower than planned by 572.7 million dinars).

In the same period, operating expenses were higher than planned by 42.1 million dinars. Net interest income was higher than the planned by 148.8 million. Continuation of the process of the pre-privatization settlement of the loan portfolio and an increase in net expenses arising from impairment and provisions for off-balance sheet positions during the year, affected KB so that during the first nine months of this year the Bank generated loss before taxation that amounted to 1,779.7 million dinars.

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

BALANCE SHEET

on 30.09.2016.

(in RSD thousand)

POSITION	ADP code	Amount	
		Current year ammount	Previous year ammount
1	2	3	4
ASSETS			
Cash and balances with central banks	0001	62.128.734	63.523.715
Pledged funds	0002	-	-
Financial assets at fair value through profit or loss held for trading	0003	403.699	851.056
Financial assets initially recognized at fair value through profit or loss	0004	-	-
Financial assets available for sale	0005	131.000.935	127.173.383
Financial assets held to maturity	0006	-	-
Loans and advances to banks and other financial institutions	0007	36.959.418	16.844.000
Loans and advances to clients	0008	158.473.809	162.742.565
Changes in fair value of items that are the subject of hedging	0009	-	-
Receivables from financial derivatives held for hedging	0010	-	-
Investments in associates and joint ventures	0011	-	-
Investments in subsidiaries	0012	5.480.888	5.480.888
Intangible assets	0013	365.826	216.830
Property, plant and equipment	0014	5.929.448	6.139.572
Investment property	0015	2.704.323	2.744.026
Current tax assets	0016	-	37.017
Deferred tax assets	0017	212.833	-
Non-current assets held for sale and assets of discontinued operations	0018	63.314	63.314
Other assets	0019	6.257.022	6.040.483
TOTAL ASSETS (from 0001 to 0019)	0020	409.980.249	391.856.849
LIABILITIES			
Financial liabilities at fair value through profit or loss held for trading	0401	1.161	-
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	13.137.441	17.159.317
Deposits and other liabilities to other clients	0405	322.346.281	300.005.903
Changes in fair value of items that are the subject of hedging	0406	-	-
Issued own securities and other borrowed funds	0407	-	-
Subordinated liabilities	0408	6.239.022	6.077.962
Provisions	0409	2.180.780	2.109.020
Liabilities from non-current assets held for sale and assets of discontinued operations	0410	-	-
Current tax liabilities	0411	-	-
Deferred tax liabilities	0412	334.416	127.545
Other liabilities	0413	6.061.646	4.920.368
TOTAL LIABILITIES (from 0401 to 0413)	0414	350.300.747	330.400.115
EQUITY			
Equity	0415	40.034.550	40.034.550
Own shares	0416	-	-
Profit	0417	8.071	179.550
Loss	0418	1.779.702	6.299.631
Reserves	0419	21.416.583	27.542.265
Unrealized losses	0420	-	-
Shares without control	0421	-	-
TOTAL EQUITY (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422	59.679.502	61.456.734
TOTAL DEFICIENCY OF CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423	-	-
TOTAL LIABILITIES (0414 + 0422 - 0423)	0424	409.980.249	391.856.849

INCOME STATEMENT

from 01.01.2016. to 30.09.2016.

(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
Interest income	1001	4.231.143	12.843.795	4.654.794	14.580.583
Interest expenses	1002	790.725	2.615.794	1.259.937	4.282.639
Net interest profit (1001-1002)	1003	3.440.418	10.228.001	3.394.857	10.297.944
Net interest loss (1002-1001)	1004	-	-	-	-
Fee and commission income	1005	1.609.332	4.570.873	1.531.644	4.428.391
Fee and commission expenses	1006	436.325	981.921	285.271	809.945
Net fee and commission income (1005 - 1006)	1007	1.173.007	3.588.952	1.246.373	3.618.446
Net fee and commission expenses (1006 - 1005)	1008	-	-	-	-
Net gains on financial assets held for trading	1009	18.646	46.748	2.301	4.337
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	-	-	-	3.363
Net loss from sale of securities	1016	2.948	53.675	8.493	-
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	6.691	5.492	41.986	28.767
Net gains on investments in associates and joint ventures	1019	5.143	5.143	-	-
Net loss on investments in associates and joint ventures	1020	-	-	-	-
Other operating income	1021	66.564	215.929	135.206	344.375
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	1.139.265	7.385.488	808.439	3.727.046
NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1024	3.554.874	6.640.118	3.919.819	10.512.652
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	1.073.744	2.327.684	1.028.529	3.087.515
Depreciation costs	1027	131.195	515.030	196.856	610.814
Other expenses	1028	1.484.087	4.667.106	2.086.037	5.509.616
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1029	865.848	-	608.397	1.304.707
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	-	-	-	-
Deffered tax expense for the period	1033	-	-	-	-
PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1034	865.848	-	608.397	1.304.707
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	865.848	-	608.397	1.304.707
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.

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

REPORT ON OTHER FINANCIAL RESULT

from 01.01.2016. to 30.09.2016.

(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	865.848	-	608.397	1.304.707
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	306.713	544.162	-	259.522
Unrealized losses arising from securities available for sale	2010	-	524.122	37.616	101.284
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	**306.713**	**20.040**	-	**158.238**
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	-	-	**37.616**	-
TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2021	**1.172.561**	-	**570.781**	**1.462.945**
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.

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД

CASH FLOW STATEMENT

from 01.01.2016. to 30.09.2016.

(in RSD thousand)

	POSITION	ADP code	Amount	
			01.01.-30.09.2016.	01.01-30.09.2015.
	1	2	3*	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflows from operating activities (from 3002 to 3005)**	3001	19.106.684	19.358.417
1.	Inflows from Interest	3002	14.373.898	14.869.468
2.	Inflows from allowances	3003	4.588.863	4.353.653
3.	Inflows from other operating income	3004	130.071	133.426
4.	Inflows from dividends and participation in profit	3005	13.852	1.870
II.	**Cash outflows from operating activities (from 3007 to 3011)**	3006	10.957.581	11.907.337
5.	Outflows from interest	3007	2.556.968	3.624.972
6.	Outflows from allowances	3008	982.746	814.339
7.	Outflows from gross salleries, wages and other personnel indemnities	3009	3.086.579	2.964.151
8.	Outflows from taxes, contributions and other obligations from income	3010	572.425	566.796
9.	Outflows from other operating expenses	3011	3.758.863	3.937.079
III.	**Net cash inflow from operating activities prior to increase or decrease in advances and deposits (3001 - 3006)**	3012	8.149.103	7.451.080
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	27.906.490	28.086.207
10.	Decrease in loans and advances to banks, other financial institutions, central bank and other clients	3015	-	28.086.207
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	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	8.990.347	11.034.487
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	-	203.789
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		10.830.698
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	27.065.246	24.502.800
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	403
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	26.945.769	24.502.397
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	35.449.045	20.864.269
1.	Inflows from long-term investment in securities	3035	35.448.758	20.858.774
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	287	5.495
4.	Inflow of sale of investment property	3038	-	-
5.	Other inflows from investing activities	3039	-	-
II.	**Cash outflows from investing activities (from 3041 to 3045)**	3040	45.762.586	44.250.124
6.	Outflows from investment in long-term securities	3041	45.340.298	43.969.351
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	422.288	280.773
9.	Outflows from purchase of investment property	3044	-	-
10.	Other outflows from investing activities	3045	-	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	-	-
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	10.313.541	23.385.855
B.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflows from financing activities (from 3049 to 3054)**	3048	94.141.027	82.652.804
1.	Inflows from capital increase	3049	-	-
2.	Cash inflows from subordinated obligations	3050	-	-
3.	Cash inflows from loans received	3051	94.141.027	82.652.804
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	99.845.569	85.799.004
7.	Outflows from purchase of own shares	3056	-	-
8.	Cash outflows from subordinated obligations	3057	-	-
9.	Cash outflows from loans received	3058	99.845.569	85.799.004
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	5.704.542	3.146.200
Г.	**TOTAL NET CASH INFLOWS (3001 + 3014 + 3034 + 3048)**	3063	176.603.246	150.961.697
Д.	**TOTAL NET CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	165.675.560	152.991.355
Ђ.	**NET INCREASE IN CASH (3063 - 3064)**	3065	10.927.686	-
E.	**NET DECREASE IN CASH (3064 - 3063)**	3066	-	2.029.658
Ж.	**CASH AT THE BEGINNING OF THE YEAR**	3067	36.227.664	45.160.177
З.	**PROFIT ON EXCHANGE**	3068	148.383	
И.	**LOSS ON EXCHANGE**	3069	-	214.812
J.	**CASH AT END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)**	3070	47.303.733	42.915.707

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 01.01.2016. to 30.09.2016.

(in RSD thousand)

ITEM	ADP code	Share and other capital (accounts 800,801,803)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Total (column 2-3+4+5+6-7+8-9)≥0	ADP code	Total (column 2-3+4+5+6-7+8-9)<0
1		2		3		4		5		6		7		8		9		10		11
Opening balance as of January 1st of preceding year	4001	17.191.466	4029		4057	22.843.084	4085	20.635.440	4113	2.351.085	4127	230.126	4141	6.755.855	4175		4209	69.546.804	4215	
Correction of material misstatement and changes to accounting policies in preceding year – increase	4002		4030		4058		4086		4114		4128		4142		4176					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4003		4031		4059		4087		4115		4129		4143		4177					
Adjusted opening balance as of January 1st of preceding year (number 1+2-3)	4004	17.191.466	4032	0	4060	22.843.084	4088	20.635.440	4116	2.351.085	4130	230.126	4144	6.755.855	4178	0	4210	69.546.804	4216	
Total positive other result for the period									4117	483.684	4131	2.182								
Total negative other result for the period									4118		4132									
Profit for the year													4145							
Loss for the year															4179	6.299.631				
Transfer from reserves to result due to release of reserves – increase													4146		4180					
Transfer from reserves to result due to release of reserves – decrease													4147		4181					
Transactions with owners, recorded directly in equity – increase	4005		4033		4061		4089						4148		4182					
Transactions with owners, recorded directly in equity – decrease	4006		4034		4062		4090						4149		4183					
Profit distribution – increase	4007		4035		4063		4091	4.300.000					4150		4184					
Profit distribution, and/or loss coverage – decrease	4008		4036		4064		4092						4151	4.300.000	4185					
Dividend payments	4009		4037		4065		4093						4152	1.962.751	4186					
Other – increase	4010		4038		4066		4094						4153	33.446	4187					
Other – decrease	4011		4039		4067		4095						4154	347.000	4188					
Total transactions with owners (number 11-12+13-14-15+16-17) ≥ 0	4012	0	4040	0	4068	0	4096	4.300.000					4155		4189	0				
Total transactions with owners (number 11-12+13-14-15+16-17) < 0	4013	0	4041	0	4069	0	4097						4156	6.576.305	4190	0				
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	24.935.440	4119	2.834.769	4133	227.944	4157	179.550	4191	6.299.631	4211	61.456.734	4217	
Opening balance as of January 1st of the current year	4015	17.191.466	4043		4071	22.843.084	4099	24.935.440	4120	2.834.769	4134	227.944	4158	179.550	4192	6.299.631	4212	61.456.734	4218	
Correction of material misstatement and changes to accounting policies in preceding year – increase	4016		4044		4072		4100		4121		4135		4159		4193					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4017		4045		4073		4101		4122		4136		4160		4194					
Adjusted opening balance as of January 1st of the current year (number 21+22-23)	4018	17.191.466	4046	0	4074	22.843.084	4102	24.935.440	4123	2.834.769	4137	227.944	4161	179.550	4195	6.299.631	4213	61.456.734	4219	
Total positive other result for the period									4124	542.052	4138									
Total negative other result for the period									4125		4139	524.122								
Profit for the year													4162							
Loss for the year															4196	1.779.702				
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	6.143.612					4168	156.019	4202	6.299.631				
Dividend payments	4023		4051		4079		4107						4169	23.531	4203					
Other – increase	4024		4052		4080		4108						4170	8.071	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	0	4206	0				
Total transactions with owners (number 31-32+33-34-35+36- 37) < 0	4027	0	4055	0	4083	0	4111	6.143.612					4173	171.479	4207	6.299.631				
Balance as of September 30st of the current year (number 24+25-26+27+28+29-30+38-39 for columns from 2,3,4,5,6,8,9), for the column 7 (number 24+26-25)	4028	17.191.466	4056	0	4084	22.843.084	4112	18.791.828	4126	3.376.821	4140	752.066	4174	8.071	4208	1.779.702	4214	59.679.502	4220	

KOMERCIJALNA BANKA
AD Beograd

NOTES

TO FINANCIAL STATEMENTS FOR THE THIRD QUARTER OF 2016

Belgrade, November 2016

1. INCORPORATION AND OPERATION OF THE BANK

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

As of 30.06.2016, the largest voting shareholders of the Bank are:
1. Republic of Serbia and
2. EBRD, London
The Bank has three subsidiaries with the following percentage holdings in their respective ownership:

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

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

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

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

As of 30 September 2016, the Bank had 2,927 employees, and on 31 December 2015 the number of employees was 2,877 employees. 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 periodical financial statements for January – September 2016 period, the Bank was using the same accounting policies and calculation methods as used when preparing the Annual Financial Statements for the year 2015.

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

2.2. Assessment Rules

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

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

2.3. Functional and Reporting Currency

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

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

BALANCE SHEET

The structure of the Bank's balance sheet as of 30 September 2016, with comparative data for 2015, prepared in the format prescribed by the Decision on forms and the contents of items in the forms for financial statements of banks (RS Official Gazette 71/2014 and 135/2014) can be seen in more detail from the following overview (reported in thousands of dinars):

In RSD thousand

	30.09.2016		31.12.2015	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	62,128,734	15.15	63,523,715	16.21
Financial assets at fair value through profit and loss, held for trading	403,699	0.10	851,056	0.22
Financial assets available for sale	131,000,935	31.95	127,173,383	32.45
Financial assets held to maturity	-	-	-	-
Loans and receivables due from banks and other financial institutions	36,959,418	9,01	16,844,000	4.30
Loans and receivables from customers	158,473,809	38.65	162,742,565	41.53
Investment in subsidiaries	5,480,888	1.34	5,480,888	1.40
Intangible assets	365,826	0.09	216,830	0.06
Property, plant and equipment	5,929,448	1.45	6,139,572	1.57
Investment property	2,704,323	0.66	2,744,026	0.70
Current tax assets	-	-	37,017	0.01
Deferred tax assets	212,833	0.05	-	-
Non-current assets held for sale and assets from discontinued operations	63,314	0.02	63,314	0.02
Other assets	6,257,022	1.53	6,040,483	1.54
TOTAL ASSETS	**409,980,249**	**100.00**	**391,856,849**	**100.00**

In RSD thousand

LIABILITIES	30.09.2016 Amount	%	31.12.2015 Amount	%
Financial liabilities at fair value through profit and loss, held for trading	1,161	0.01	-	-
Deposits and other liabilities due to banks, other financial organizations and the central bank	13,137,441	3.20	17,159,317	4.38
Deposits and other liabilities due to other customers	322,346,281	78.62	300,005,903	76.56
Subordinated liabilities	6,239,022	1.52	6,077,962	1.55
Provisions	2,180,780	0.53	2,109,020	0.54
Deferred tax liabilities	334,416	0.08	127,545	0.03
Other liabilities	6,061,646	1.48	4,920,368	1.26
Equity	59,679,502	14.56	61,456,734	15.68
TOTAL LIABILITIES	**409,980,249**	**100.00**	**391,856,849**	**100.00**

INCOME STATEMENT

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

In RSD thousand

INCOME	30.09.2016 Total	30.09.2015 Total
Interest income	12,843,795	14,580,583
Fee and commission income	4,570,873	4,428,391
Net gains on the financial assets held for trading	46,748	4,337
Net gains on financial assets available for sale	-	3,363
Net gains on investments in subsidiaries and joint ventures	5,143	-
Other operating income	215,929	344,375

EXPENSES	Total	Total
Interest expense	2,615,794	4,282,639
Fee and commission expense	981,921	809,945
Net loss from financial assets intended for trading	53,675	-
Net expense from exchange rate differentials and the effects of agreed currency clause	5,492	28,767
Net expense from impairment of financial assets and credit risk weighted off-balance sheet items	7,385,488	3,727,046
Cost of salaries, allowances and other personnel expenses	3,237,684	3,087,515
Depreciation cost	515,030	610,814
Other expenses	4,667,106	5,509,616

Result of the period (profit/loss)	**(1,779,702)**	**1,304,707**

CASH FLOW STATEMENT

In thousand RSD

Item	30.09.2016 Total	30.09.2015 Total
Cash inflows from operating activities	**19,106,684**	**19,358,417**
Inflow from interest	14,373,898	14,869,468
Inflow from fees	4,588,863	4,353,653
Inflow from other operating activities	130,071	133,426
Inflow from dividends and share in profit	13,852	1,870
Cash outflows from operating activities	**10,957,581**	**11,907,337**
Interest payments	2,556,968	3,624,972
Fee payments	982,746	814,339
Payments for gross salaries, allowances and other personnel expenses	3,086,579	2,964,151
Taxes, contributions and other duties charged to income	572,425	566,796
Payments for other operating expenses	3,758,863	3,937,079
Net cash inflow from operating activities before increase or decrease in loans and deposits	**8,149,103**	**7,451,080**
Decrease in lending and increase in deposits and other liabilities	**27,906,490**	**28,086,207**
Decrease in loans and receivables from banks, other financial organizations, the central bank and customers	-	28,086,207
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	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	**8,990,347**	**11,034,487**
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	-	203,789
Decrease in deposits and other liabilities to banks, other financial organizations, central banks and customers	-	10,830,698

Item	30.09.2016 Total	30.09.2015 Total
Net inflow of cash from operating activities before profit tax	**27,065,246**	**24,502,800**
Net outflow of cash from operating activities before profit tax	**-**	**-**
Paid profit tax	-	-
Paid dividends	119,477	403
Net inflow of cash from operating activities	**26,945,769**	**24,502,397**
Net outflow of cash from operating activities	**-**	**-**
Cash inflow from investment activities	**35,449,045**	**20,864,269**
Inflow from investment securities	35,448,758	20,858,774
Inflow from sales of intangible assets, property, plants and equipment	287	5,495
Cash outflow from investment activities	**45,762,586**	**44,250,124**
Outflow for investing in investment securities	45,340,298	43,969,351
Outflow for purchase of intangible assets, property, plants and equipment	422,288	280,773
Outflow for purchase of investment property	-	-
Net outflow of cash from investment activities	**10,313,541**	**23,385,855**
Cash inflow from financing activity	**94,141,027**	**82,652,804**
Inflow from borrowings	94,141,027	82,652,804
Cash outflow from financing activity	**99,845,569**	**85,799,004**
Outflow from borrowings	99,845,569	85,799,004
Net outflow of cash from financing activity	**5,704,542**	**3,146,200**
Total cash inflow	**176,603,246**	**150,961,697**
Total cash outflow	**165,675,560**	**152,991,355**
Net increase in cash	**10,927,686**	**-**
Net decrease in cash	**-**	**2,029,658**
Cash and cash equivalents at the start of the year	**36,227,664**	**45,160,177**
Exchange rate gains	148,383	-
Exchange rate loss	-	214,812
End of period cash and cash equivalents	**47,303,733**	**42,915,707**

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 from January – September 2016 amounts to RSD 10,228,001 thousand and is lower by RSD 69,943 thousand or 0.68% compared to the same quarter last year.

3.2. Fee and Commission Income and Expenses

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

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

Net fee income in the period from January –September 2016 amounts to RSD 3,588,952 thousand and is lower compared to the same period 2015 by 0.82% or RSD 29,494 thousand.

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

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

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

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

In the observed period of 2016 the Bank showed the net gains against financial assets held for trading in the amount of RSD 46,748 thousand (RS bonds, investment units of KombankInvest and gains from the sale of derivatives – swap transactions).

As for financial assets available for sale a net loss from sale has been recorded amounting to RSD 53,675 thousand (bonds and T-bills of the Republic of Serbia and foreign entities' bonds), which together with the realized interest income arising from these securities in the amount of 3,384,514 thousand (data for the total period from the moment of purchase until maturity) makes for a total net positive effect in the amount of RSD 3,330,839 thousand.

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

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

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

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

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

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

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

Net expenses from exchange rate differentials in the reporting period January – September 2016 amount to RSD 5,492 thousand. The stated net expense is mainly under direct impact of movement of RSD exchange rate against currency basket (currencies EUR, USD and CHF) between the two observed reporting periods as a form of protection against risk and management of the Bank's FX position.

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

3.5. Other Operating Income

In the overall other income of RSD 215,929 thousand the other operating revenues account for the largest share of 55.06 % (the same period last year 35.02 %), which mainly refer to the income from renting the real estate amounting to RSD 67,164 thousand. Other operating revenues came as a result of the compensation for mobile telephone expenses, court expenses and cost of utility services, and also as a result of income from damages paid by insurance companies. Within other income the most significant items relate to interest income from previous years generated from corporate and retail operations and entrepreneurs in the total amount of RSD 72,004 thousand.

Income from dividends is part of Position: Other Income. Dividends received from investment in shares of other legal entities in the amount of RSD 13,852 thousand are shown as income from dividends at the moment of their collection. Out of total amount of received dividends, RSD 7,828 thousand relate to dividend of AIK Banka, and RSD 1,105 thousand to dividend received from Dunav osiguranje.

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

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

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

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

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

For assessed impairment amount, the Bank makes allowance against the expenses for the period in which the impairment occurred. If in later periods the Bank management finds that conditions have changed and that impairment is no longer in place, the allowance made earlier is abolished in 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.

Net expenses arising from indirect write off of loans and provisions amount to RSD 7,385,488 thousand, while in the same period 2015 they amounted to RSD 3,727,046 thousand and are higher by RSD 3,658,442 thousand or 98.16% compared to 30.09.2015. This came primarily as a consequence of the Bank's decision to increase the coverage of NPLs by impairments and provisions against expenses of the period, in order to „clean the assets"for the purpose of privatization of the Bank.

3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 3,237,684 thousand are higher by RSD 150,169 thousand or 4.86 % compared to the same period last year. Net increase came primarily as a result of disbursed severance pay for consensual termination of employment, growth of labor cost that is applied for calculation of salaries, by 2.17% since the month of April and increase of average salary in the Republic of Serbia, which is the basis for calculating the meal allowance, vacation allowance and contributions by 3.5%, compared to the same period last year and the effects of the initiated process of new internal organization and systematization.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 515,030 thousand are lower relative to the period January – September 2015 by RSD 95,784 thousand or 15.68%, as a result of full depreciation of certain fixed and intangible assets.

3.9. Operating Expenses and Other Operating Expenses

Operating and other operating expenses stated amount to RSD 4,667,106 thousand and they are increased, in comparison to the same period last year, by RSD 842,510 thousand, or 15.29%. Other costs consist of:

a) operating expenses amounting to *RSD 4,324,899 thousand,*
b) cost of provisions for court disputes amounting to RSD 96,057 thousand and
c) other expenses amounting to RSD 246,151 thousand

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

a) Operating expenses in the total amount of RSD 4,324,899 thousand, as follows:

- costs of production services in the amount of RSD 1,481,851 thousand of which the largest amounts come from: rental costs for office space, equipment and advertising space in the amount of RSD 498,117 thousand, costs of managing and maintaining ATMs and POS terminals and other equipment for payment cards amounting to RSD 245,046 thousand, costs of maintenance of information equipment and software in the amount of RSD 174,391 thousand, costs of advertising and marketing amounting to RSD 148,640 thousand and costs of current maintenance of the office space and other equipment in the amount of RSD 84,904 thousand.

- intangible costs totaling RSD 1,933,891 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 1,156,969 thousand .

- cost of materials amounting to RSD 256,782 thousand

Operating expenses in the current period are lower year-on-year by RSD 46,880 thousand.

b) expenses related to provisions for court disputes amounting to RSD 96,057 thousand relate to increase in provisions for court-related liabilities of the Bank

c) Other expenses in the amount of RSD 246,151 thousand.

Out of total amount of other expenses for period January – September 2016, amounting to RSD *246,151 thousand,* the largest share accounts for the costs of interest for lost court disputes from the previous period that amount to RSD 122,836 thousand (reference - note 3.18) . Other expenses in the same period last year amounted to RSD 959,158 thousand.

Compared to the same period 2015, other expenses are lower by RSD 713,007 thousand, taking into account that in the same period last year this position included the expenses arising from lost court dispute– principal and interest, unlike the current period when the Bank recorded only interest expenses originating from the lost court dispute. Also, within the position of other expenses in 2015 the Bank stated the adjusted interest from previous years under the RS Government Decree on reducing interest on mortgage loans indexed in CHF and correction of interest from previous years for loans to legal clients, for clients that were undergoing the pre-packaged reorganization plan, and in the current period the Bank did not incur/state the expenses arising thereof.

BALANCE SHEET

Balance sheet total as of 30.09.2016 amounts to RSD 409,980,249 thousand, which, in comparison to 31.12.2015 represents an increase of RSD 18,123,400 thousand or 4.63%. The increase came mostly as a result of increase in the item loans and receivables from banks and other financial organizations on the assets side and an increase in deposits by the Bank's clients, on the liabilities side.

ASSETS

In total Bank's assets, loans and deposits to customers and banks have a dominant share of 47.66% (2015: 45.83%), financial assets available for sale with a share of 31.95% (2015: 32.45%), cash and funds at the central bank with a share of 15.15% (2015: 16.21%), other assets with a share of 1.53% (2015: 1.54%), property, plant and equipment with a share of 1.45% (2015: 1.57%) and investment in subsidiaries of 1.34% (2015: 1.40%).

3.10. Cash and Funds with the Central Bank

Cash and assets with the central bank as of 30.09.2016 amount to RSD 62,128,734 thousand, and account for 15.15% of Bank's total assets (16.21 % as of 31.12.2015). Compared to 31.12.2015 the position is decreased by RSD 1,394,981 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 403,699 thousand and financial assets available for sale in the amount of RSD 131,000,935 thousand together make up a percentage of share of 32.05% of total assets (2015: 32.67%); they increased compared to 2015 by RSD 3,380,195 thousand. The achieved increase fully relate to investments in financial assets available for sale amounting to RSD 3,827,552 thousand, while the investments in securities held for trading recorded a decrease in the amount of RSD 447,357 thousand.

In the structure of dinar financial assets available for sale as of 30.09.2016 the largest share is that of the bonds of the Republic of Serbia (75.35%), then T-bills of the Republic of Serbia with (24.65%.) When it comes to securities in foreign currency, these are made up of bonds of the Republic of Serbia (89.51%), T-bills of the Republic of Serbia (8.49%) and bonds by foreign banks and countries in the amount of (2.00%.)

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, 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 30.09.2016 loans and receivables from banks and other financial organizations amount to RSD 36,959,418 thousand with percentage of share of 9.01% of total assets (2015: RSD 16,844,000 thousand) and are higher by RSD 20,115,418 thousand. Increase from 31.12.2015 came mostly as a result of increase of: REPO investments by RSD 11,950,000 thousand, regular FX current accounts abroad by RSD 4,493,026 thousand, deposits to banks in foreign currency up to seven days in the amount of RSD 2,141,533 thousand and an increase of short-term liquidity loans to other banks, in the amount of RSD 1,400,000 thousand.

Loans and receivables from customers as of 30.09.2016 amount to RSD 158,473,809 thousand with a percentage of share of 38.65% of total assets (2015: RSD 162,742,565 thousand) **and** have predominant share in asset structure. Total loans to customers are lower by RSD 4,268,756 thousand, primarily due to increase in impairment provisions of loans, which are conditioned by adjusting the credit risk.

3.13. Investment in Subsidiaries

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

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

All these items account for as little as 3.79% of total assets, of which the highest percentage relates to other assets equaling 1.53%, property, plant and equipment of 1.45% and investment property, equaling 0.66%.

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

Investments in the capital of banks, foreign and local legal entities as of 30.09.2016 amount to RSD 1,368,800 thousand (gross amount, excluding impairment allowance), of which stake in the equity of foreign entities amounts to RSD 814,987 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 30.09.2016 amounts to RSD 503,761 thousand.

LIABILITIES

In the period January – September 2016 the structure of liabilities was still dominated by deposits and other liabilities to banks and customers and the capital with a total percentage of 81.82% (2015: 80.94%) of total liabilities. Share of capital in total liabilities equals 14.56% (2015: 15.68%).

Other items account for 3.61% of total liabilities, with the largest part of this item being subordinated liabilities with a percentage of 1.52%.

3.15. Deposits and Other Liabilities to Banks, Other Financial 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 322,346,281 thousand thus accounting for 78.62% of total liabilities (2015: 76.56%) followed by deposits and other liabilities to banks, other financial organizations and the central bank in the amount of RSD 13,137,441 thousand with a share of 3.20% (2015: 4.38%).

When compared to 2015 the total increase in deposits is RSD 18,318,502 thousand: transaction deposits are higher by RSD 28,390,755 thousand, while other deposits recorded a decline amounting to RSD 10,072,253 thousand.

Increase in transaction deposits resulted from an increase in RSD transaction deposits of RSD 27,032,504 thousand while the transaction deposits in foreign currency recorded a growth by 1,358,250 compared to 31.12.2015. The structure of transaction deposits is still dominated by deposits in local currency with share of 69.90%, while the remaining 30.10% relate to deposits in foreign currency.

Other deposits are dominated by foreign currency deposits with a share of 93.75% while dinar deposits account for 6.25%. Foreign currency savings have been increased by EUR 15, 5 million.

Borrowings

Borrowings, as part of the position deposits and other liabilities to banks and other customers, amount to RSD 19,816,784 thousand and with a percentage of share in total liabilities of 4.83% it recorded a reduction relative to 2015 in the amount of RSD 5,426,105 thousand through early repayment of foreign credit line EFSE and repayment of regular loan tranches.
In item – liabilities to foreign banks, same as last year, the borrowings from the following foreign creditors account for the largest share:

1. GGF (RSD 810,651 thousand),
2. FMO (RSD 1,643,905 thousand),
3. IFC (RSD 1,849,394 thousand) and
4. EBRD (RSD 4,755,583 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 29,253 thousand,
2. Government of the Republic of Italy – RSD 454,931 thousand,
3. European Investment Bank (EIB) – RSD 5,736,273 thousand,
4. European Agency for Reconstruction and Development (EAR) – RSD 221,543 thousand and
5. KfW – RSD 4,315,252 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 September 2016 amount to 6,239,022 thousand and they comprise the subordinated loan in dinar equivalent of EUR 50,000 thousand or RSD 6,164,645 thousand reduced by the amount of accrued expenses for the liabilities stated at amortized value, by applying effective interest rate of RSD 10.547 thousand and accrued liabilities from interest of RSD 84,924 thousand. The loan was approved with a maturity date of 15 December 2017.

3.17. Provisions

Provisions in the amount of RSD 2,180,780 thousand consist of provisions for: coverage of liabilities (court disputes), long-term employee salaries and provisions for losses on off-balance sheet assets. Compared to 2015, in the observed period there was an increase in provisions in the amount of RSD 71,760 thousand. Net increase came as a result of the increase in provisions for court disputes by RSD 96,057 thousand and a decrease of provisions for losses on off-balance-sheet assets of RSD 24,297 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 31.12.2015, there were changes in the total level of these provisions, in the amount of RSD 96,057 thousand recognized in the profit and loss account charged against the cost of provisions for court disputes, as a result of an increase in provisions for the existing disputes and allocation of provisions for new cases. For a total of twenty five cases as of 30.09.2016, the provisions of RSD 1,290,931 thousand were allocated.

The most important items relate to:

- Provisions for a facility to Interexport a.d. Beograd (in bankruptcy) – for covered letters of credit from 1991. The case of this dispute has been separated before the court into two cases – claim for the settlement of the debt of Interexport a.d. (in bankruptcy) by the state, as follows:
  a) Republic of Serbia, in the amount of RSD 649,538 thousand, or USD 4,773 thousand for the principal and USD 1,132 thousand for the interest and
  б) Interexport a.d. Beograd (in bankruptcy), in the amount of RSD 332,030 thousand, or USD 1,946 thousand for the principal and USD 1,006 thousand for the interest

  The second instance decision of the Commercial Court of Appeal No. Pz 919/15 of 05.05.2016, led to having revised the previous decision of the Commercial Court in Belgrade from 2015. According to the new decision, the Bank is obliged to calculate and pay interest for the period between 01.01.2005 and

29.10.2013, which it had not been obliged to do according to the previous decision. Interest was accrued for this, in the amount of USD 1,104 thousand or RSD 121,372 thousand and was recorded on the item of other liabilities arising from lost court disputes. The Bank has filed a complaint to the amount of interest liability for the account period between 01.01.2005 and 29.10.2013.

On 10.10.2016, on the basis of instruction of the Ministry of Finance of the Republic of Serbia and according to Decision of the Court of Appeal 6 PŽ 919/15, the Bank made a payment as indicated in the court decision in the case with the Republic of Serbia in total amount of RSD 775,105 thousand (more details in note 6)

- Provision for the performance guarantee concluded with the Privatization Agency (case of VektraM d.o.o. Beograd) in the amount of RSD 220,428 thousand for the interest. The contract concerns the sale of the socially-owned capital of DP Župa concluded on 13 January 2004 between the Privatization Agency of the Republic of Serbia and the company VektraM d.o.o. Beograd. A provision for the performance bond (provision for off-balance-sheet items) was made in the Bank's books for this case, in the amount of RSD 260,686 thousand.

For another twenty two court disputes the Bank has made provisions in total amount of RSD 88,934 thousand.

3.18. Other liabilities

Other liabilities amount to RSD 6,061,646 thousand and compared to 2015 are higher by RSD 1,141,278 thousand. Percentage share of other liabilities in the total liabilities is 1.48% (2015: 1.26%). The most important items in other liabilities are liabilities from profit amounting to RSD 2,434,302 thousand, liabilities from calculation of purchase and sale of foreign currency amounting to RSD 1,356,222 thousand, other liabilities from SPOT transaction of RSD 275,314 thousand, liabilities for net salaries charged against expenses in the amount of RSD 251,379 thousand, liabilities from closed accounts by clients deleted at the competent register in the amount of RSD 140,209 thousand and liabilities from received court decisions in the amount of RSD 121,372 thousand for part of the interest as per second instance court decision in the case with the Republic of Serbia (reference note 3.17).

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 assets invested in the Bank's capital.

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

As at 30.09.2016 the Bank's capital consists of:

In RSD thousand	2016	2015
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from the profit	18,791,828	24,935,440
Revaluation reserves	3,297,669	2,755,618
Unrealized losses based on securities available for sale	(752,065)	(227,944)
Actuarial gains	79,151	79,151
Reserves	21,416,583	27,542,265
Accumulated profit	8,071	179,550
Loss	(1,779,702)	(6,299,631)
Balance as at date	59,679,502	61,456,734

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

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

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

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

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

The capital adequacy ratio of the Bank as at 30 September 2016, calculated on the basis of the financial statements, equals 23.06% having implemented the applicable decisions of the National Bank of Serbia for 2016.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 30.09.2016 the pecuniary part of capital is above the prescribed level.

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

The structure of the share capital – ordinary shares as at 30.09.2016 is as follows:

Shareholder name	% of share
Republic of Serbia	41.74
EBRD, LONDON	24.43
IFC CAPITALIZATION FUND LP	10.15
DEG-DEUTSHE INVESTITIONS	4.60
SWEDFUND INTERNATIONAL	2.30
Jugobanka AD Beograd in bankruptcy	1.91
EAST CAPITAL (lux) BALKAN FUND	1.46
INVEJ DOO, Beograd	1.37
Company Dunav osiguranje	1.02
UNICREDIT BANK Serbia – custody account	0.74
STANKOM Co DOO BEOGRAD	0.70
UNICREDIT BANK Serbia	0.55
Evropa Osiguranje AD in bankruptcy	0.52
Other	8.52
	100.00

4. RELATIONS WITH SUBSIDIARIES

4. A. Balance as of 30.09.2016

RECEIVABLES In thousand RSD

Subsidiary	Loans and advances	Interests and fees	Other assets	Impairments	Net BS exposure	Off-balance	Total
1. Kom.banka AD Budva	6,746	921	-	-	7,667	-	7,667
2. Kom.banka AD Banja Luka	546,011	-	452	-	546,463	-	546,463
3. Kombank INVEST	-	164	-	-	164	200	364
TOTAL:	**552,757**	**1,085**	**452**	**-**	**554,294**	**200**	**554,494**

LIABILITIES In thousand RSD

Subsidiary	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom.banka AD Budva	1,343,807	-	1,722	1,345,529
2. Kom.banka AD Banja Luka	122,692	-	-	122,692
3. Kombank INVEST	88	-	-	88
TOTAL:	**1,466,587**	**-**	**1,722**	**1,468,309**

INCOME AND EXPENSES for period 01.01 – 30.09.2016

In thousand RSD

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

4. B. Balance as of 31.12.2015

RECEIVABLES

In thousand RSD

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

LIABILITIES

In thousand RSD

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

INCOME AND EXPENSES for period 01.01- 30.09. 2015

In thousand RSD

Subsidiary	Interest income	Fee and commission income	Interest expenses	Fee and commiss. expenses	Net income / expenses
1. Kom.banka AD Budva	78	1,666	-	(1,370)	374
2. Kom.banka AD Banja Luka	7,110	1,598	-	(694)	8,014
3. Kombank INVEST	-	516	(10)	-	506
TOTAL:	**7,188**	**3,780**	**(10)**	**(2,064)**	**8,894**

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange loss of RSD 2,892 thousand.

5. RISK MANAGEMENT

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

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

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

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

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

Risk Management System

The Risk Management System is defined by the following acts:

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

The Risk Management Strategy defines:

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

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

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

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

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

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

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

Competences

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

The Executive Board is competent and responsible for the implementation of the risk management strategies and policies and capital management strategy by adopting the procedures for risk management, and/or risk identification, measurement and assessment, and by ensuring their application and reporting to the Board of Directors on such activities. Also, the Executive Board analyzes the risk management system and informs the Board of Directors at least quarterly about the level of exposure to the risks and about the risk management, and decides based on prior consent of the Board of Directors about each increase of the Bank's exposure to a person related with the Bank, and notifies the Board of Directors thereof.

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

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

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

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

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

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

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

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

Risk Management Process

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

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

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

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

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

Risk Types

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

5.1. Credit Risk

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

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

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

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

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

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

Credit Risk Management

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

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

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

Basic principles of the risk management are:

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

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

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

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

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

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

Basis credit risk mitigation techniques include:

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

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

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

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

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

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

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

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

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

Risk of change in asset quality

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

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

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

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

Risk of change in the value of assets

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

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

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

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

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

Individual assessment

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

Group assessment

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

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

Establishing probable loss from off-balance-sheet items

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

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

5.1.1. Maximum exposure to credit risk

Maximum exposure to credit risk as of 30 September 2016 and 2015 is shown in the table below. The table does not take into consideration any collateral or any other credit protection. The stated values are shown in gross and net carrying amount (after the mitigation effects from impairment).

Maximum exposure to credit risk before collaterals and other enhancements

In RSD dinars

	30 September 2016		31 December 2015	
	Gross	Nett	Gross	Nett
I. Overview of assets	**436,976,849**	**391,692,162**	**411,139,949**	**373,696,686**
Cash and assets at the central bank	62,128,734	62,128,734	63,523,715	63,523,715
Loans and receivables from banks and other financial institutions	37,355,605	36,959,418	17,243,760	16,844,000
Loans and receivables from customers	202,279,266	158,473,809	199,026,572	162,742,565
Financial assets	131,578,095	131,404,634	128,122,478	128,024,439
Other assets	3,635,150	2,725,568	3,223,424	2,561,967
II. Off-balance-sheet items	**32,080,873**	**31,565,047**	**28,081,278**	**27,541,154**
Payable guarantees	3,980,447	3,876,127	4,702,206	4,548,918
Performance bonds	6,541,310	6,408,634	6,503,652	6,392,930
Irrevocable commitments	21,191,582	21,191,582	16,303,173	16,303,173
Other	367,535	88,705	572,247	296,133
Total (I+II)	**469,057,722**	**423,257,209**	**439,221,227**	**401,237,840**

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

Loans and receivables from customers, banks and other financial organisations

in RSD thousand

30.09.2016.

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	Receivables from banks
Undue unimpaired	-	-	-	-	-	-	1,034,860	1,034,860	33,282,772
Due but unimpaired	-	-	-	-	-	-	534,278	534,278	3,676,646
Group impaired	38,192,810	19,625,472	6,577,161	6,284,212	7,602,068	78,281,722	88,173,847	166,455,570	396,187
Individually impaired	1,117,641	-	79,212	-	677,029	1,873,882	32,380,676	34,254,558	-
Total	**39,310,451**	**19,625,472**	**6,656,372**	**6,284,212**	**8,279,097**	**80,155,604**	**122,123,661**	**202,279,266**	**37,355,605**
Impairment	**904,815**	**1,049,254**	**427,245**	**731,775**	**1,393,617**	**4,506,707**	**39,298,750**	**43,805,456**	**396,187**
Group impairment	651,901	1,049,254	412,421	731,775	1,220,868	4,066,220	18,779,391	22,845,610	396,187
Individual impairment	252,914	-	14,824	-	172,749	440,487	20,519,359	20,959,846	-
Net carrying value	**38,405,636**	**18,576,218**	**6,229,127**	**5,552,437**	**6,885,480**	**75,648,898**	**82,824,912**	**158,473,809**	**36,959,418**

in RSD thousand

31.12.2015.	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	Receivables from banks
Undue unimpaired	-	-	-	-	-	-	2,296,663	2,296,663	15,620,284
Due but unimpaired	-	-	-	-	-	-	136,129	136,129	1,223,716
Group impaired	37,371,641	17,297,093	5,589,643	6,407,131	6,158,650	72,824,158	87,419,835	160,243,993	399,760
Individually impaired	952,661	-	82,542	-	994,392	2,029,595	34,320,192	36,349,787	-
Total	**38,324,302**	**17,297,093**	**5,672,185**	**6,407,131**	**7,153,042**	**74,853,753**	**124,172,819**	**199,026,572**	**17,243,760**
Impairment	**888,843**	**984,660**	**409,008**	**721,661**	**1,049,869**	**4,054,041**	**32,229,966**	**36,284,007**	**399,760**
Group impairment	634,395	984,660	390,670	721,661	903,295	3,634,681	16,134,158	19,768,839	399,760
Individual impairment	254,448	-	18,338	-	146,574	419,340	16,095,808	16,515,168	-
Net carrying value	**37,435,459**	**16,312,433**	**5,263,177**	**5,685,470**	**6,103,173**	**70,799,712**	**91,942,853**	**162,742,565**	**16,844,000**

Impaired loans and receivables

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

Unimpaired loans in default

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

Unimpaired loans whose repayment is up-to-date

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

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

in RSD thousand

30 Septembar 2016

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	Receivables from banks
Low (IR 1 and 2)	-	-	-	-	-	-	1,034,860	1,034,860	33,282,772
Increased (IR 3)	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**1,034,860**	**1,034,860**	**33,282,772**

in RSD thousand

31 December 2015

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

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

in RSD thousand
30 September 2016

	Housing	Cash	Agricultural	Other	Micro-business	Total retail	Corporate clients	Total	Receivables from banks
Default of up to 30 days	-	-	-	-	-	-	386,970	386,970	3,676,646
Between 31 and 90 days	-	-	-	-	-	-	-	-	-
Over 90 days	-	-	-	-	-	-	147,308	147,308	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**534,278**	**534,278**	**3,676,646**

in RSD thousand
31 December 2015

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

5.1.2. *Loans with a change in initially agreed terms*

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

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

Restructuring applies to borrowers with significant problems in operation and whose financial ratios are severely compromised. When implementing a restructuring:

- all balance-sheet receivables from the borrower are replaced i.e. a large portion of receivables;
- terms under which the loan was granted are changed significantly (this particularly means the extension of the repayment period for the principal or interest, reduced interest rate or the amount of receivables, as well as other changes in the loan terms that facilitate the borrower's position);
- adoption of appropriate financial consolidation program is mandatory.

5.1.3. *Concentration risk*

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

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

5.1.4. *Instruments of protection against credit risk (collateral)*

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

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

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

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

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

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

5.2. Liquidity Risk

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

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

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

The Bank has established appropriate organizational structure, which allows for clear differentiation between the process of assuming and the process of managing liquidity risk. The Asset and Liability Management Committee 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 2016, the Bank's liquidity and rigid liquidity ratios were significantly in excess of the prescribed limits.

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

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid/Cash Liquidity Ratio	
	30.09.2016.	31.12.2015.	30.09.2016.	31.12.2015.
	2,97	2,73	2,60	2,51
Average for the period	3,07	3,11	2,62	2,82
Maximum for the period	3,45	3,97	3,08	3,62
Minimum for the period	2,81	1,85	2,37	1,65

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	30.09.2016.	31.12.2015.
	Max (10%)	6,06%	5,54%
Cumulative GAP up to 3	Max (20%)	5,66%	6,84%

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

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

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

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

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

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

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

5.3. MARKET RISK

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

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

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

5.3.1. Interest Rate Risk

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

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

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

	Лимити	**30.09.2016.**	**31.12.2015.**
Relative GAP	Max 15%	0,79%	1,38%
Mismatch ratio	0.75 – 1.25	1,01	1,02

During 2016, 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:

	30.09.2016.	**31.12.2015.**
As at	3,96%	5,23%
Average for the period	3,89%	8,68%
Maximum for the period	4,08%	10,70%
Minimum for the period	3,64%	5,23%
Limit	20%	20%

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

5.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

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

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

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

	30.09.2016.	31.12.2015.
	2.605.782	4,072,802
Currency risk ratio	6,31%	10.60%
Legally-defined limit	20%	20%

5.4. Operational Risk

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

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

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

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

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

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

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

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

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

5.5. Investment risks

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

5.6. Exposure risk

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

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

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

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

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

5.7. Country risk

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

- Political – economic risk i.e. the likelihood of loss due to the Bank's inability to collect its receivables because of limitations specified in the legal documents passed by the government and other bodies of the borrower's home country, as well as general circumstances that characterise the system in that particular country;

- Transfer risk is the likelihood of loss due to inability to collect receivables in a currency that is not the official currency of the borrower's home country due to limitations in payment of liabilities to creditors from other countries in a certain currency – the limitations set in the legal documents of government and other bodies of the borrower's home country.

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

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

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

5.8 Capital Management

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

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

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

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

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

Capital adequacy ratio

	30.09.2016.	**31.12.2015.**
Core capital	42,419,150	40,078,298
Supplementary capital	4,386,557	3,909,144
Deductible items	(5,480,888)	(5,555,355)
Capital	**41,324,818**	**38,432,087**
Credit risk-weighted assets	153,765,708	144,531,657
Operational risk exposure	21,710,322	20,679,815
Foreign currency risk exposure	3,740,648	4,072,901
Capital adequacy ratio (minimum 12%)	**23.06%**	**22.70%**

In the third quarter of the year of 2016 the Bank's capital adequacy ratio was in excess of the prescribed regulatory limit of 12%.

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

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

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

6. EVENTS AFTER THE BALANCE SHEET

On 10.10.2016, pursuant to the instruction of the Ministry of Finance of the Republic of Serbia and following the decision of the Court of Appeal 6 PŽ 919/15 the Bank made a payment as indicated in the court decision in the case with the Republic of Serbia in total amount of RSD 775,105 thousand.
Individually by items, the paid amount under the principal and the interest was RSD 774,427 thousand
(dinar equivalent of principal amount of USD 4,772 thousand and of interest amounting to USD 2,258 thousand, arising from the cost of court dispute of RSD 678 thousand
For the subject dispute the Bank had already allocated the provisions amounting to RSD 649,539 thousand, while the remaining amount was recognized on the item: Other liabilities, based on received court judgments.

The Bank, in compliance with the newly enacted Opinion of the Ministry of Finance of the Republic of Serbia, and bearing in mind the fact that the taxable profit of the Bank in the coming years could be reduced by a considerable amount of tax losses carried forward, amended on 10.10.2016, the tax balance (PB-1) and filed an amended tax return for corporate income tax for the year 2015, allowing the Bank to offset, and/or to reduce the future income taxes by the amount of **RSD 1.557.613 thousand** (by applying the statutory tax rate of 15% on the amount of tax loss carried forward). Thus, the Bank has used the opportunity provided by and in accordance with the *Law on Tax Procedure and Tax Administration,* to file an amended tax return within 5 years, with no consequences.

The Bank's Board of Directors at its session held on 27.10.2016 rendered the decision on invitation for the regular General Meeting of Bank's Shareholders, which will be held on 01.12.2016 in Belgrade, with the draft agenda:

- Decision on Adoption of the Revision of the Business Plan for the year 2016 and
- Decision on Adoption of the Strategy and Business Plan of the Bank for the period 2017- 2019

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

Currencies	Official NBS rate	
	2016	2015
USD	109.8965	111.2468
EUR	123.2929	121.6261
CHF	113.7179	112.5230

In Belgrade,
On 01.11.2016

Persons responsible for drafting the financial statements

БЕОГРАД
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STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2016 to 30/09/2016 present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the IAS and IFRS, as published by January 1, 2009, which were translated and published in the Official Gazette, in October 2010, pursuant to the decision by the Finance Minister.

Persons responsible for the preparation of financial statements

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