KOMERCIJALNA BANKA

Meni najbliža

REPORT

ON BANK'S OPERATIONS FOR THE THIRD QUARTER OF THE YEAR 2014

BELGRADE, OCTOBER 2014

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1. OVERVIEW OF KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 31.12.2013 TO 30.09.2014

1.1. Bank's Performance Indicators

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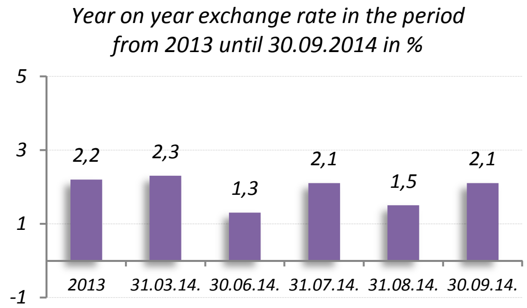
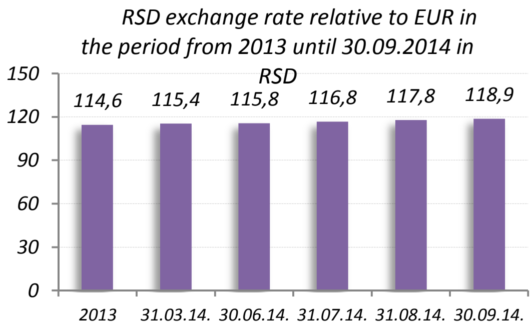
BALANCE SHEET ASSETS	380.098.988	389.655.562	384.355.324	382.099.783	373.632.718	363.654.366
LOANS AND DEPOSITS TO CUSTOMERS	187.391.600	189.533.061	189.046.501	180.341.457	184.670.713	184.004.121
Share of NPL (as %)	18,13%	17,76%	17,71%	17,74%	18,15%	17,51%
Retail loans and deposits	68.529.627	67.714.737	66.596.442	65.056.601	62.904.782	61.848.487
Corporate loans and deposits	118.861.973	121.818.324	122.450.059	115.284.856	121.765.931	122.155.634
REPO TRANSACTIONS	0	0	3.336.070	550.000	23.000.000	12.246.700
TOTAL REQUIRED RESERVE	64.179.980	63.617.901	62.265.889	61.505.801	65.598.093	62.285.607
TOTAL LIABILITIES	311.757.588	321.702.198	316.725.760	314.846.289	307.049.564	298.692.148
DEPOSITS FROM CUSTOMERS	267.873.881	278.729.784	275.135.496	273.698.746	265.882.431	255.597.545
Retail deposits	201.775.673	199.338.211	196.738.462	193.832.921	189.757.329	186.766.804
Corporate deposits	66.098.208	79.391.573	78.397.034	79.865.825	76.125.102	68.830.740
NUMBER OF EMPLOYEES	2.928	2.926	2.926	2.928	2.952	2.966
Assets per employee in 000 RSD	129.815	133.170	131.359	130.499	126.569	122.608
Assets per employee in 000 EUR	1.092	1.130	1.125	1.127	1.097	1.069
OPERATING PROFIT	3.548.875	3.110.022	2.773.981	2.395.133	1.207.262	4.588.375
INTEREST GAINS	10.206.147	9.097.739	8.003.057	6.886.174	3.362.136	12.940.271
FEE AND COMMISSION GAINS	3.416.627	3.014.656	2.626.371	2.221.327	1.089.437	4.565.148
OPERATING EXPENSES	7.928.607	7.040.843	6.156.902	5.282.716	2.588.936	10.161.794
PROFITABILITY INDICATORS:						
ROA – profit / average BS assets	1,25	1,24	1,27	1,28	1,31	1,33
ROE – profit/ average total capital	7,07	6,99	7,15	7,22	7,33	7,33
ROE – profit / average share capital	11,82	11,65	11,88	11,97	12,06	11,46
CIR = OPEX / net interest and fees	58,20%	58,13%	57,92%	58,00%	58,16%	58,05%
CAPITAL ADEQUACY	16,78%	17,59%	18,20%	18,86%	18,45%	19,02%
FX RISK RATIO	0,69%	1,05%	0,75%	1,05%	5,70%	2,12%
LIQUIDITY RATIO	3,74	3,43	3,33	3,61	4,26	3,45
OPERATING CASH FLOW	6.750.934	5.777.238	4.703.997	4.094.637	2.219.075	6.824.563

2. MACROECONOMIC OPERATING CONDITIONS IN THE PERIOD FROM 31.12.2013 TO 30.09.2014

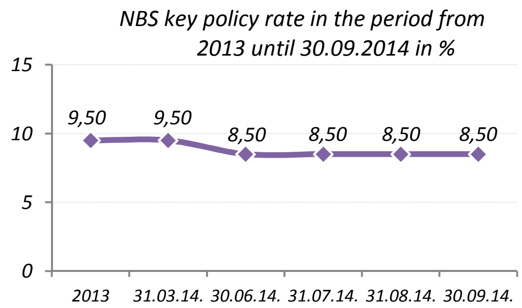
The y.o.y inflation rate (consumer price growth) shows oscillations during the first nine months of 2014. Since March of this year, inflation was below the lower limit of the target tolerance, mainly due to reductions in food prices. Year on year inflation in September (2.1%) rose by 0.6 percentage points, and its return within the target tolerance band (4 ± 1.5%) is expected by the end of the year.



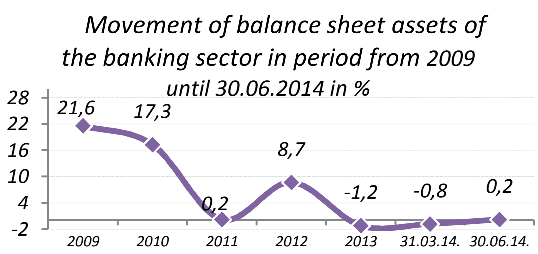
At the end of the third quarter of this year, the dinar has depreciated considerably compared to the previous year. Dinar has reached a value of around 118 dinars for one euro. During the first three quarters of this year there was a decline in the value of the dinar by 3.7% compared to the end of the previous year.



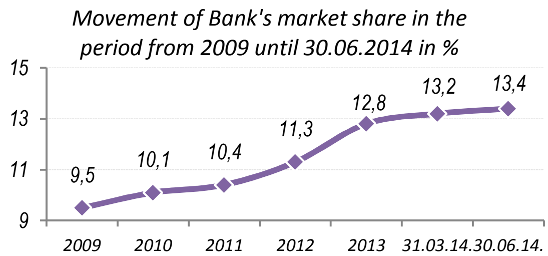
At the end of the third quarter this year NBS key policy rate is 8.50%, and when compared to the end of the last year it has been reduced by 1 p.p. Specified rate should contribute to macro-economic stabilization, in addition to alleviating the inflationary expectations. Due to decreasing inflationary pressure and stabilization of prices in the coming period, further smoothing of NBS's monetary policy stance is to be expected.



In the Q2 2014,the banking sector in the Republic of Serbia recorded a slight increase in balance sheet assets (0.2%) compared to the previous year. The recorded growth was well below the five-year average of the previous period (9.3%).



In the Q2 2014, the Bank slightly increased its share in total balance sheet assets of the banking sector (13.4%). During the observed period (2009 – 30.09.2014) market share of the Bank in the banking sector's assets increased by 3.9 percentage points.



3. BANK'S KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 31.12.2013 TO 30.09.2014

ITEM	30.09.14.	31.08.14.	31.07.14.	30.06.14.	31.03.14.	2013.
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REPO TRANSACTIONS	0	0	3.336.070	550.000	23.000.000	12.246.700
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Assets per employee in 000 EUR	1.092	1.130	1.125	1.127	1.097	1.069

As at 30.09.2014, the balance sheet of the Bank amounted to RSD 380,099.0 million and increased by RSD 16,444.6 million or 4.5% compared to the previous year.

Off-balance sheet assets increased by 5.6% in 2014 and at the end of September this year amounted to RSD 237,506.7 million.

At the end of the third quarter of 2014, the balance of loans and deposits granted to customers amounts to RSD 187,391.6 million, which is slightly above the achievement realized at the end of 2013 (1.8%), and in doing so, Bank has maintained a relatively low level of NPLs in total loans (18.1%). In the same period, the Bank recorded a growth of deposits in the amount of RSD 12,276.3 million or 4.8%. In the structure of the increase referred to above, retail deposits increased by RSD 15,008.9 million, while corporate deposits in the amount of RSD 2,732.5 million. The effect of the dinar depreciation against the euro and the Swiss franc was included in the above net positive change, amounting to about RSD 8.6 billion.

ITEM	30.09.14.	31.08.14.	31.07.14.	30.06.14.	31.03.14.	2013.
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INTEREST GAINS	10.206.147	9.097.739	8.003.057	6.886.174	3.362.136	12.940.271
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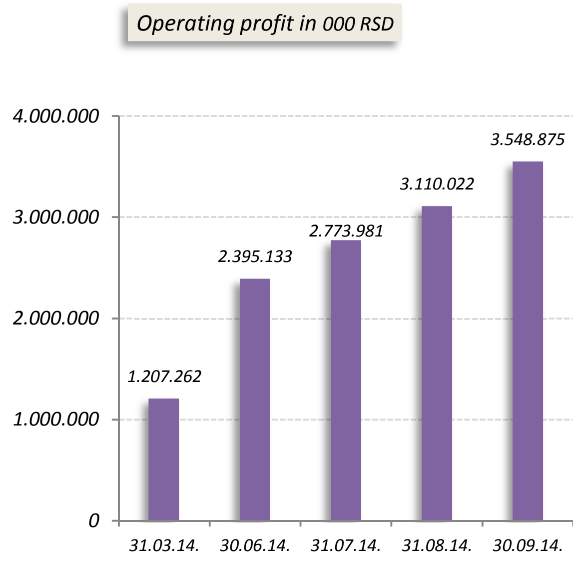
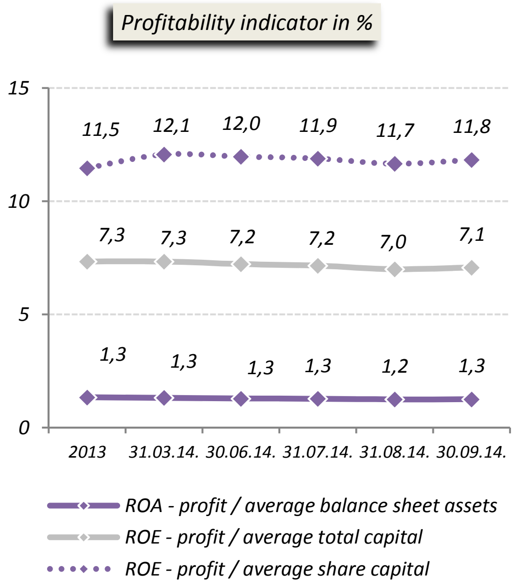
ROE – profit/ average total capital	7,07	6,99	7,15	7,22	7,33	7,33
ROE – profit/ average share capital	11,82	11,65	11,88	11,97	12,06	11,46
CIR = OPEX / net interest and fees	58,20%	58,13%	57,92%	58,00%	58,16%	58,05%





The global financial crisis, inefficiency and illiquidity of domestic economic entities have caused the Bank to achieve a lower profit (-10.9%) in the first nine months of this year compared to the same period last year. The Bank's achieved profit in the period from 01.01 to 30.09.2014 amounted to 3,548.9 million dinars, which compared to the same period last year represented a decrease of RSD 433.4 million. The change resulted in return on total capital of 7.1%, or return on share capital of 11.8% in the first nine months of 2014.

Movements of the achieved profit in the first three quarters of 2014 were mostly affected by an increase in net expenditure arising from indirect write-offs, impairment and provisions, in the amount of RSD 637.8 million or 42.7% and an increase in operating and other expenses in the amount of 585.0 million dinars or 7.8%. Among the positive effects it is important to note an increase in net interest income in the amount of RSD 738.5 million (7.8%) and net fee income in the amount of RSD 53.3 million (1.6%).

Reducing the number of employees, with an increase in the volume of operations, improved the ratio of assets and number of Bank's employees. In the first nine months of 2014, assets per employee in the Bank increased from RSD 122.6 million (31.12.2013) to RSD 129.8 million as at 30.09.2014.

Growth in operating costs and rising net interest and fees income influenced the retention of "Cost to Income Ratio" (CIR) at approximately the same level (58.05% as of 31/12/2013 or 58.20% on 30.09. 2014).

BALANCE SHEET AS AT 30.09.2014

4.1. Bank's Assets as at 30.09.2014

(*In 000 RSD)*

No.	ITEM	30.09.2014	31.12.2013	INDEXES	% OF SHARE AS AT 30.09.2014
1	2	3	4	5=(3:4)*100	6
	ASSETS				
1.	Cash and cash equivalents	35.989.800	41.137.794	87,5	9,5
2.	Callable deposits and loans	42.047.706	53.395.120	78,7	11,1
3.	Interest, fee and sale receivables	3.479.889	2.788.176	124,8	0,9
4.	Loans and deposits to customers	187.391.600	184.004.121	101,8	49,3
5.	Securities (other than own)	86.195.719	57.001.465	151,2	22,7
6.	Equity holdings	6.092.343	6.054.110	100,6	1,6
7.	Other investments	2.761.397	2.929.218	94,3	0,7
8.	Intangible investments	455.127	537.445	84,7	0,1
9.	Fixed assets and investment property	8.212.377	8.386.224	97,9	2,2
10.	Non-current assets intended for sale	65.697	71.630	91,7	0,0
11.	Deferred tax assets	95.460	0	-	0,0
12.	Other assets	7.311.873	7.349.063	99,5	1,9
	TOTAL ASSETS (from 1 to 12)	**380.098.988**	**363.654.366**	104,5	100,0

The Bank's balance sheet assets, as of the end of the third quarter of 2014, increased by RSD 16,444.6 million or 4.5% in comparison to the end of the previous year. Loans and advances to customers increased by RSD 3,387.5 million, or 1.8%. As at 30.09.2014, the total loans and advances to customers amounted to RSD 187,391.6 million, which represents 49.3% of total assets.

During the first nine months of 2014, the position of cash and cash equivalents decreased by 12.5% primarily due to the reduction of funds in foreign currency accounts. The decline of 21.3% was also recorded in the item of callable deposits and loans, predominantly as a consequence of reduced investments in repo transactions with the NBS in the amount of RSD 12,246.7 million.

In the reporting period for the current year a significant increase was realized in the securities item (other than own shares), increase in the amount of RSD 29,194.3 million or 51.2%, primarily due to higher Bank's investments in RS govt. securities and in dinar and foreign currency treasury bills.

In the reporting period, the item of interest, fee and sale receivables rose by RSD 691.7 million or 24.8%.

4.2. Bank's Liabilities as at 30.09.2014

(In 000 RSD)

No.	ITEM	30.09.2014	31.12.2013	INDEXES	% OF SHARE AS AT 30.09.2014
1	2	3	4	5= (3:4)*100	6
I	**LIABILITIES**				
1.	Transaction deposits	53.014.430	53.217.378	99,6	13,9
2.	Other deposits	214.859.452	202.380.166	106,2	56,5
3.	Borrowings	28.294.018	1.619.990	1746,6	7,4
4.	Securities related liabilities	-	-		
5.	Interest and fee liabilities	119.877	255.888	46,8	0,0
6.	Provisions	1.551.267	765.132	202,7	0,4
7.	Tax liabilities	75.461	21.616	349,1	0,0
8.	Liabilities from profit	277.369	150.124	184,8	0,1
9.	Liabilities – for discontinued assets	-	-		
10.	Deferred tax liabilities	105.616	10.156	1039,9	0,0
11.	Other liabilities	13.460.098	40.271.698	33,4	3,5
12.	**TOTAL LIABILITIES (from 1 to 11)**	**311.757.588**	**298.692.148**	104,4	82,0
	CAPITAL				
13.	Share capital and issue premium	40.034.550	40.034.550	100,0	10,5
14.	Reserves from profit	16.635.440	16.635.440	100,0	4,4
15.	Revaluation reserves	2.181.979	1.791.268	121,8	0,6
16.	Unrealized losses based on securities available for sale	-140.089	-187.011	74,9	0,0
17.	Profit	9.629.520	6.687.971	144,0	2,5
18.	**TOTAL CAPITAL (from 13 to 17)**	**68.341.400**	**64.962.218**	105,2	18,0
19.	**TOTAL LIABILITIES (12+18)**	**380.098.988**	**363.654.366**	104,5	100,0
II	**COMMISSION OPERATIONS AND OFF-BALANCE SHEET ITEMS**	**237.506.690**	**224.949.026**	105,6	

At the end of the first nine months of 2014, total liabilities amounted to RSD 311,757.6 million, and make up 82.0% of total liabilities (31.12.2013: 82.1%). At the same time, with RSD 68341.4 million, total capital participates in total liabilities 18.0% (31.12.2013: 17.9%). Total liabilities increased compared to the previous year to RSD 13,065.4 million, or 4.4%, while total capital increased to RSD 3,379.2 million or 5.2%.

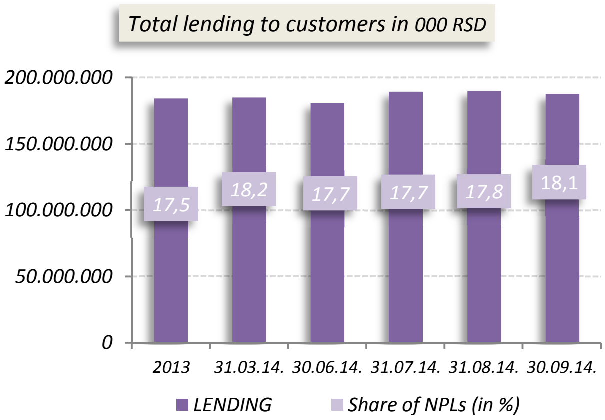
In the reporting period, item of other deposits increased to RSD 12,479.3 million, or 6.2%, while the item of transaction deposits decreased compared to the previous year to RSD 202.9 million or 0.4%.

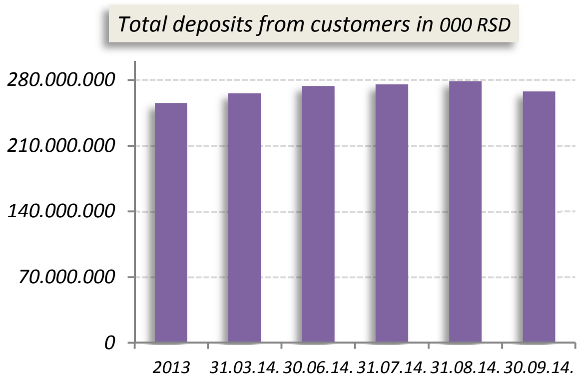
Borrowings amounted to RSD 28,294.0 million and total liabilities accounted for 7.4%. In the first nine months of 2014, the increase in this balance sheet item amounted to RSD 26,674.0 million, which was mainly the result of reallocation / book transfer of foreign credit lines in line with the NBS recommendation, from the "Other liabilities" item in the total amount of RSD 27,279.5 million (EUR 229.3 million, RSD 12.7 million and RSD 11.8 million with currency clause). In the first nine months of this year, liabilities arising from foreign credit lines increased in the net equivalent of 572.9 million dinars (EUR 18.6 million repaid, EUR 15.2 million draw down, RSD 3.3 million from CV and RSD 2.8 million).

The item of other liabilities at the end of the third quarter amounted to RSD 13,460.1 million and decreased by RSD 26,811.6 million or 66.6%. To the largest extent, this reduction (RSD 27,279.5 million) is the result of the respective book transfer to the "borrowings" item. The highest share in the structure of other liabilities are the liabilities in foreign currency - subordinated loan in the amount of 50.0 million EUR (RSD 5,942.5 million), which was withdrawn at the end of 2012 in order to increase regulatory capital.

The structure of the balance sheet liabilities, deposits from customers (transaction and other deposits) amounted to RSD 267,873.9 million, which represents 70.5% of total balance sheet liabilities, thereby recording y-o-y increase of RSD 12,276.3 million or 4.8%.

4.3. Loans to Customers and Deposits from Customers as at 30.09.2014





The most important categories of assets, loans and deposits, recorded an increase of RSD 3,387.5 million, as well as the change in share of total assets from 50.6% (31.12.2013.) which reduced to the level of 49.3%.

Total loans and advances of the Bank as at 30.09.2014, amounted to RSD 187,391.6 million, an increase of 1.8% compared to the previous year. At the end of the third quarter of 2014, the level of loans and deposits was under the significant influence of the corporate loans that reached the amount of RSD 118,862.0 million (-2.7%) at the end of September, wherewith loans to banks and financial organisations increased by RSD 1,543.7 million or 15.6%.

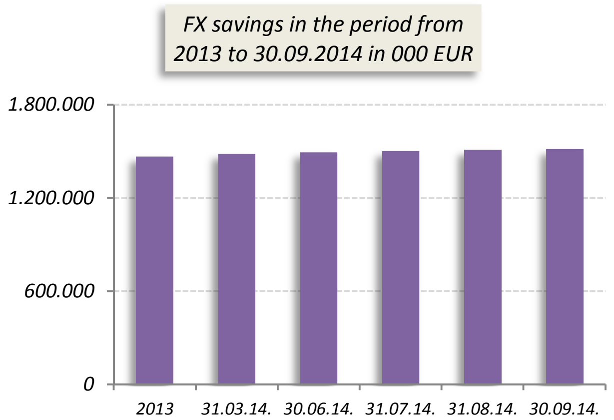
At the end of September 2014, total deposits of the Bank amounted to RSD 267,873.9 million and made up 70.5% of the Bank's total liabilities (December 2013: 70.3%). In comparison with the previous year, the Bank's total deposits increased by RSD 12,276.3 million (4.8%), while other deposits increased by RSD 12,479.3 million, or 6.2%, whereas transaction deposits decreased by RSD 202, 9 million or 0.4%. Excluding the effects of the dinar depreciation on foreign currency deposits and deposits with a currency clause (RSD 8,577.7 million) total deposits show real growth in the amount of RSD 3,698.7 million.

The increase in other deposits in the first nine months of 2014 was largely the result of an increase in retail deposits (RSD 15,008.9 million), corporate deposits (RSD 7,387.9 million), while deposits from banks and financial institutions recorded a decrease (-10,120.4 million RSD). In the past three quarters, within the above stated changes, retail foreign currency saving deposits increased by EUR 46.2 million.

(In 000 RSD)

No.	ITEM	BALANCE AS AT 30.09.2014	BALANCE AS AT 31.12.2013	INDEX (3:4)*100
1	2	3	4	5
I	**LOANS TO CUSTOMERS (1+2+3)**	**187.391.600**	**184.004.121**	101,8
1.	Corporate	107.423.920	112.261.312	95,7
2.	Retail	68.529.627	61.848.487	110,8
3.	Banks and financial organizations	11.438.052	9.894.322	115,6
II	**DEPOSITS FROM CUSTOMERS (1+2+3)**	**267.873.881**	**255.597.544**	104,8
1.	Corporate	49.519.450	42.131.535	117,5
2.	Retail	201.775.673	186.766.804	108,0
3.	Banks and financial organizations	16.578.758	26.699.205	62,1

NOTE: Deposits also include transaction deposits.



Having the reputation of safe and stable bank in the Serbian market, the Bank managed to increase FX savings deposits by EUR 46,2 million, or 3.2% in the observed period.

Despite still present economic crisis, FX savings increased in the first nine months of 2014 and reached the amount of EUR 1512,4 million.

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

4.4. Commission Operations and Off-Balance Sheet Items in 2014

(In 000 RSD)

No.	ITEM	BALANCE AS AT 30.09.2014	BALANCE AS AT 31.12.2013	INDEX (3:4)*100
1	2	3	4	5
I	**OPERATIONS FOR AND ON BEHALF OF (commission operations)**	**5.445.769**	**5.402.256**	100,8
II	**CONTINGENT LIABILITIES**	**31.132.603**	**30.809.215**	101,0
1.	Payable guarantees	5.904.270	7.357.476	80,2
2.	Performance bonds e	8.145.010	5.786.839	140,8
3.	Bill guarantee and bill acceptance	26.712	37.737	70,8
4.	Undrawn commitments	16.685.816	16.757.817	99,6
5.	Other off-balance sheet items that may lead to payment by the bank	339.163	823.538	41,2
6.	Uncovered letters of credit	31.632	45.808	69,1
III	**UNCLASSIFIABLE OFF-BALANCE SHEET ITEMS**	**200.928.318**	**188.737.556**	106,5
1.	FX savings bonds	3.806.953	4.536.682	83,9
2.	Securities in custody	189.894.056	176.482.487	107,6
3.	Other off-balance sheet items	7.227.309	7.718.387	93,6
	TOTAL (I +II+III)	**237.506.690**	**224.949.027**	105,6

As of 30.09.2014, contingent off-balance sheet liabilities amount to total of RSD 31,132.6 million – increase from RSD 323,4million, or 1.0% in comparison to the end of the previous year, due to an increase of performance guarantees.

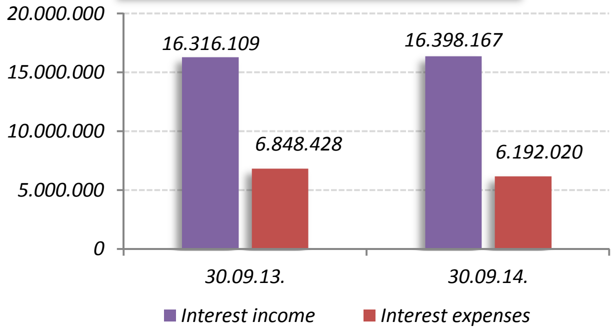
5. INCOME STATEMENT FOR THE PERIOD FROM 01.01.2014 TO 30.09.2014

(In 000 RSD)

No.	ITEM	BALANCE AS AT 30.09.2014	BALANCE AS AT 31.12.2013	INDEX (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	16.398.167	16.316.109	100,5
1.2.	Interest expenses	6.192.020	6.848.428	90,4
1.	**Interest gains**	**10.206.147**	**9.467.681**	107,8
2.1.	Fee and commission income	4.112.999	4.046.770	101,6
2.2.	Fee and commission expenses	696.372	683.431	101,9
2.	**Fee and commission gains**	**3.416.627**	**3.363.339**	101,6
3.	Net profit / loss from sale of securities at fair value through income statement	9.162	15.929	-
4.	Net profit / loss from sale of securities available for sale	35.528	1.738	-
5.	Net profit/loss from sale of securities held-to-maturity	-	-	-
6.	Net profit / loss from sale of stake (share)	-	-	-
7.	Net profit / loss from sale of other loans and advances	824	-	-
8.	Net profit / loss from exchange rate differentials and valuation adjustment of assets and liabilities	-129.798	-63.170	205,5
9.	Income from dividends and stakes	2.281	2.908	78,4
10.	Other operating income	208.734	171.699	121,6
11.	Net income / expenses from indirect write-off of loans and provisions	-2.130.554	-1.492.718	142,7
12.	Cost of salaries, fringe benefits and other personnel expenses	3.129.110	3.145.638	99,5
13.	Depreciation costs	631.492	589.991	107,0
14.	Operating and other business expenses	4.309.474	3.749.450	114,9
15.	**RESULT FOR THE PERIOD – PROFIT BEFORE TAX (from 1 to 14)**	**3.548.875**	**3.982.327**	89,1
16.	Profit tax	-	-	-
17.	Profit from increased deferred tax assets and decreased deferred tax liabilities	-	-	-
18.	Loss from decreased deferred tax assets and increased deferred tax liabilities	-	-	-
19.	**PROFIT (from 15 to 18)**	**3.548.875**	**3.982.327**	89,1

5.1. Interest Income and Expenses

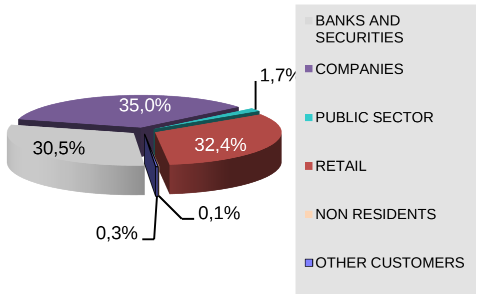
Interest income and expenses in 000 RSD



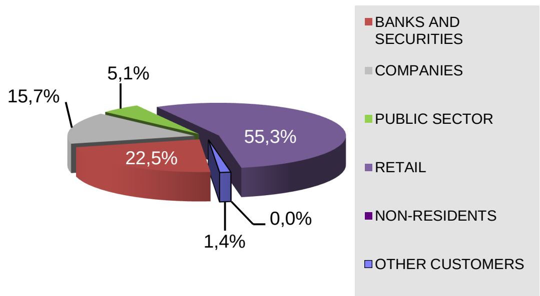
Interest gains amount to RSD 10,206.1 million, which, in comparison to the same period last year, represents an increase of 7.8%.

Compared to the previous year, interest income increased by RSD 82.1 million, or by 0.5%, while interest expenses decreased by RSD 656.4 million, or 9.6%.

Interest income by sectors in 2014



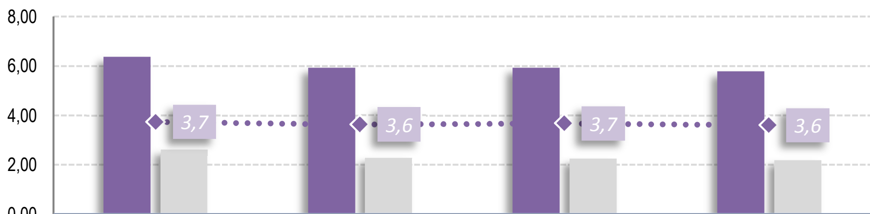
Interest expenses by sectors in 2014



Largest share in the interest income is of the interest income from corporate transactions (RSD 5,734.4 million or 35.0%), while interest on retail deposits dominate in interest expenses (RSD 3,422.9 million or 55.3%), which mostly resulted from raised FX savings.

Movements of Bank`s interest margin from 2013 until 30.09.2014 in %

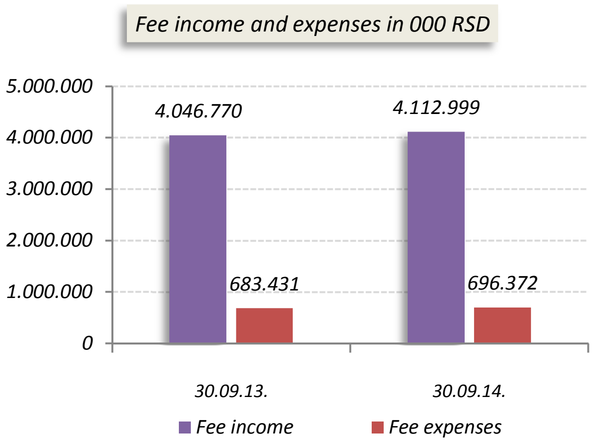
On total net assets



	2013	1 Q	2 Q	3 Q
Average lending interest rate	6,4	5,9	5,9	5,8
Average debit interest rate	2,6	2,3	2,3	2,2
Average interest margin	3,7	3,6	3,7	3,6

The average lending rate at the end of the third quarter of 2014 was 5.8%, and the average debit rate came to 2.2%, so the average interest margin of the Bank at the end of the reported period totalled 3.6%.

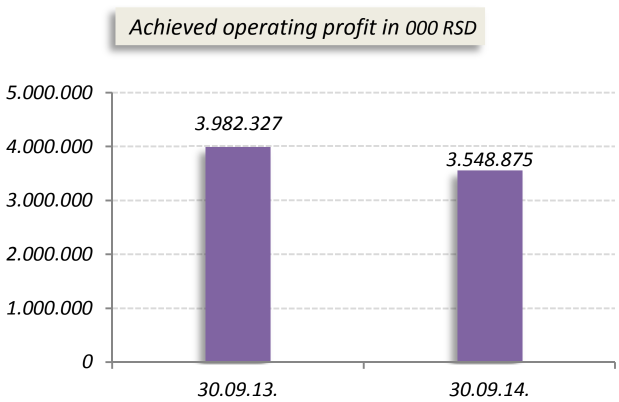
5.2. Fee Income and Expenses



Compared to the previous year, banking services-related fee and commission income increased by RSD 66.2 million, or by 1.6%, while fee and commission expenses increased by RSD 12.9 million, or by 1.9%.

In the first nine months of 2014, fee and commission gains amounted to RSD 3,416.6 million and were higher than in the same period last year by 1.6%.

5.3. Realized operating profit



Despite the adverse and unpredictable macroeconomic operating conditions and recession both in international and local economy, in the period between January 01st to Septemeber 30th, 2014, the Bank achieved operating profit of RSD 3,548.9 million, which makes for a decrease of 10.9% in comparison to the same period last year.

The amount of the achieved operating profit provided for the Bank, in the first six months of 2014, return on total capital of 7.1%, and/or return on share capital of 11.8%.

PERFORMANCE INDICATORS PRESCRIBED BY THE LAW ON BANKS

No.	ITEM	PRESCRIBED	30.09.2014	31.06.2014	31.03.2014	2013
1.	CAPITAL ADEQUACY RATIO (NET CAPITAL / CREDIT RISK + OPERATIONAL RISKS + OPEN FX POSITION)	MIN. 12%	16,78%	18,86%	18,45%	19,02%
2.	RATIO OF INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR AND FIXED ASSETS	MAX. 60%	27,95%	25,42%	25,93%	24,67%
3.	BANK'S LARGE EXPOSURE RATIO	MAX. 400%	155,80%	127,95%	99,27%	115,90%
4.	FX RISK RATIO	MAX. 20%	0,69%	1,05%	5,70%	2,12%
5.	LIQUIDITY RATIO	MIN. 0,8	3,74	3,61	4,26	3,45

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

A detailed overview of main risks and threats the Bank will be exposed to in the upcoming period is presented in chapter 5, Risk Management, Notes to Financial Statements.

7. ALL MAJOR TRANSACTIONS WITH RELATED ENTITIES

On 30.09.2014, persons related to the Bank are:

1. Komercijalna Banka a.d. Budva, Montenegro,
2. Komercijalna Banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest, a.d. Belgrade,
4. Five legal entities (Lasta doo, Viš trade doo, Desk doo, Menta doo, GO Čukarica-veteran and disability protection), as well as a major number of natural persons, as per provisions of the Article 2 of the Law on Banks in the part that governs the term of „persons related to the bank".

Total exposure of the persons related to the Bank as of 30.09.2014 amounted RSD 948,090 thousands, which, relative to the capital of RSD 29,400,152 thousands, represented 3.2% (maximal value of total lending to all the persons related to the Bank according to the Law on Banks amounted 20% of the capital).

Major portion of exposure to persons related to the Bank as of 30.09.2014 was the amount of RSD 637,525 thousands, or 2.2% of the Bank's capital, and it refers to all loans to retail customers that are persons related to the Bank.

According to the Article 37 of the Law on Bank, the Bank has not granted loans to the persons related to the bank under conditions that are better than the conditions for granting loans to other customers unrelated to the Bank.

8. KEY DATA ON BUSINESS PLAN IMPLEMENTATION FOR THE YEAR 2014

Implementation of the Strategy and Business Plan in the first nine months of 2014 was carried out within the expected macroeconomic business conditions, including particularly:

-estimated 1.1% fall of the GDP in the second quarter of 2014 compared to the same period last year (Office of Statistics), the plan for the whole year is 1.0% fall (MF, NBS),

-inflation rate (year-on-year inflation rate, September 2014/September 2013: +2,1%) which is a mild increase in September and closer to the lower level of the projected rate for September of the current year (4.0+/-1.5%),

-fall of the dinar rate up to 118 dinars for 1 euro (euro to dinar exchange rate projected at the year-end: 1 euro = 115.00 dinars (KB), and achieved on 30.09.2014: 1 euro = 118.85 dinars).

In addition to the above, the operations of the banks in the first six months of 2014, were also greatly affected by the public debt crisis in the Eurozone, restraint of foreign investors to invest in Serbia, meteorological disasters, geopolitical crisis related to Ukraine, decrease in loan demand, especially in the corporate sector, and increase of credit risk due to recession and unemployment in the real sector.

8.1. Planned and realized values of balance sheet for the first half of 2014

At the end of the 3rd quarter, the total Bank's balance sheet assets amounted to RSD 380,099.0 million and compared to the planned value for the same period increased by RSD 26,301.0 million or 7.4%. Significant positive deviations between actual and planned values were recorded at the position of securities (other than own), the achieved value was increased by RSD 32,795.7 million or +61.4%, as a result of additional investments in both dinar and FX government securities.

Fall of values generated in relation to the planned was particularly recorded at the position of callable deposits and loans, which reduced by RSD 6,286.3 million (-13.0%) due to lower investments in the NBS repo operations. The effect of reduction in callable deposits and loans was redirected into an increase in cash and cash equivalents in the amount of RSD 1,613.8 million, mainly due to an increase in drawing account balances and cash in foreign currency (+570.5 million dinars compared to the initial state), as well as the part of the above specified increase of investments in securities available for sale.

The largest positive deviation from the planned size in the structure of the balance sheet liabilities is shown at the position of the deposits (RSD 28,178.9 million), which was contributed by the growth of retail deposits (RSD 20,571.5 million), corporate deposits growth (RSD 10,000.5 million). Simultaneous negative deviation is shown at the position of foreign credit lines - a reduction in the amount of RSD 6,150.7 million - book transfer to the position of borrowings. Dinar exchange rate movements - depreciation (3.7% in relation to EUR), increased to some extent the realized deviations from planned values. The recorded total assets growth (+7.4%; plan is +0.2% for the full year), provided to the Bank an increase of the market share from 12.8% in 2013 to 13.4% at the end of June 2014. The banking sector in the period 2013- 30.06.2014 achieved total assets growth of 0.2%, in contrast to the decline in the previous quarter (data for 30.09.2014 was not available at the time of this report).

Realized and planned values of items from assets and liabilities in the balance sheet as of 30.06.2014 are as follows:

(In 000 RSD)

No.	I T E M	Plan 30.09.2014	Realized 30.09.2014	Plan realization in %
1	2	3	4	5=4/3
	ASSETS			
1.	Cash and cash equivalents	34.376.000	35.989.800	104,7
2.	Callable deposits and loans	48.334.000	42.047.706	87,0
3.	**Loans and deposits to customers (3.1.+3.2.+3.3.)**	**192.442.000**	**187.391.600**	97,4
3.1.	Corporate	114.450.000	107.423.920	93,9
3.2.	Retail	64.921.000	68.529.627	105,6
3.3.	Banks and financial organizations	13.071.000	11.438.052	87,5
4.	Other assets	78.645.548	114.669.882	145,8
4.1.	Securities	53.400.000	86.195.719	161,4
4.2.	Other	25.245.548	28.474.163	112,8
5.	**TOTAL ASSETS (1+2+3+4)**	**353.797.548**	**380.098.988**	107,4

	LIABILITIES			
1.	**Deposits**	**239.695.000**	**267.873.881**	111,8
1.1.	Corporate	39.519.000	49.519.450	125,3
1.2.	Retail	181.204.000	201.775.673	111,4
1.3.	Banks and financial organizations	18.972.000	16.578.758	87,4
2.	Other liabilities	47.880.971	43.883.707	91,7
3.	**Total liabilities (1+2)**	**287.575.971**	**311.757.588**	108,4
4.	**Total capital**	**66.221.577**	**68.341.400**	103,2
5.	**TOTAL LIABILITIES (3+4)**	**353.797.548**	**380.098.988**	107,4

8.2. Planned and realized values of the Income Statement for the period 01.01.-30.09.2014

(In 000 RSD)

No.	ITEM	Plan 01.01.-30.09.2014	Realized 01.01.-30.09.2014	Plan realization in %
1	2	3	4	5=4/3
1.1.	Interest income	16.503.686	16.398.167	99,4
1.2.	Interest expenses	6.782.844	6.192.020	91,3
1.	**Interest gains (1.1.-1.2.)**	**9.720.842**	**10.206.147**	105,0
2.1.	Fee and commission income	4.326.552	4.112.999	95,1
2.2.	Fee and commission expenses	724.579	696.372	96,1
2.	**Fee and commission gains (2.1. -2.2.)**	**3.601.973**	**3.416.627**	94,9
3.	Net FX gains/losses and valuation adjustment (FX clause)	-	-129.797	-
4.	Net other operating income/expenses	135.000	115.058	85,2
5.	Net expenses/income from indirect write off of loans and provisions	-1.987.500	-2.130.554	107,2
6.	Operating expenses	7.935.750	7.928.607	99,9
7.	**OPERATING PROFIT**	**3.534.566**	**3.548.875**	100,4

Regarding the positions of the income statement, a slight deviation is observed at the position of the interest gains (achieved value was increased by RSD 485.1 million compared to the planned size). Net fee and commission income (achieved value was less than planned by RSD 185.4 million). Operating expenses in the same period were slightly lower than the planned by 7.4 million dinars as a result of the rationalization of operating costs. The result of the overall business activity is the profit achievement of RSD 14.3 million dinars exceeding the planned values for the period from January 01st to September 30th, 2014.

KOMERCIJALNA BANKA AD BEOGRAD

Director of the Accounting Division — Executive Director for Accounting

Snežana Pejčić — Savo Petrović

BALANCE SHEET

on 30.09.2014.

(in RSD thousand)

POSITION	ADP code	Amount: Current year ammount	Amount: Previous year ammount
1	2	3	4
ASSETS			
Cash and cash equivalents	001	35.989.800	41.137.794
Revocable deposits and loans	002	42.047.706	53.395.120
Revocables from interest, compensations, sale, change of derivatives fair value and other receivables	003	3.479.889	2.788.176
Loans, advances and deposits of clients	004	187.391.600	184.004.121
Securities (without own shares)	005	86.195.719	57.001.465
Shares (participation)	006	6.092.343	6.054.110
Other invesments	007	2.761.397	2.929.218
Intangible assets	008	455.127	537.445
Fixed assets and invested immovables	009	8.212.377	8.386.224
Permanent assets for sale and assets of businesses to be ceased	010	65.697	71.630
Deferred tax assets	011	95.460	-
Other assets	012	7.311.873	7.349.063
Losses above equity	013	-	-
TOTAL ASSETS (from 001 to 013)	014	380.098.988	363.654.366
LIABILITIES			
Transaction deposits	101	53.014.430	53.217.378
Other deposits	102	214.859.452	202.380.166
Received loans	103	28.294.018	1.619.990
Liabilities for issued securities	104	-	-
Liabilities for interest, compensations and change of derivatives fair value	105	119.877	255.888
Provisions	106	1.551.267	765.132
Liabilities for tax	107	75.461	21.616
Liabilities for profit	108	277.369	150.124
Liabilities from assets for sale and assets of businesses to be ceased	109	-	-
Deferred tax liabilities	110	105.616	10.156
Other liabilities	111	13.460.098	40.271.698
TOTAL LIABILITIES (from 101 to 111)	112	311.757.588	298.692.148
EQUITY			
Equity	113	40.034.550	40.034.550
Reserves from profit	114	16.635.440	16.635.440
Revaluation reserves	115	2.181.979	1.791.268
Unrealized losses from securities for sale	116	140.089	187.011
Profit	117	9.629.520	6.687.971
Loss up to equity	118	-	-
TOTAL EQUITY (from 113 to 115+117-116-118)	119	68.341.400	64.962.218
TOTAL LIABILITIES (112+119)	120	380.098.988	363.654.366
OFF-BALANCE SHEET ITEMS (from 122 to 126)	121	237.506.690	224.949.026
Transactions for and on behalf of third parties	122	5.445.769	5.402.256
Future obligation acceptance	123	30.956.504	30.829.366
Received warranties for liabilities	124	-	-
Derivatives	125	-	-
Other off-balance sheet items	126	201.104.417	188.717.404

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД • БЕОГРАД 4

PROFIT AND LOSS ACCOUNT

from 01.01.2014. to 30.09.2014.

(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
OPERATING INCOME AND EXPENSES					
Interest income	201	5.302.054	16.398.167	5.651.849	16.316.109
Interest expenses	202	1.982.081	6.192.020	2.311.817	6.848.428
Interest profit (201-202)	203	3.319.973	10.206.147	3.340.032	9.467.681
Interest losses (202-201)	204	-	-	-	-
Fees and compensations income	205	1.449.701	4.112.999	1.423.810	4.046.770
Fees and compensations expense	206	254.402	696.372	229.185	683.431
Fees and compensations profit (205-206)	207	1.195.299	3.416.627	1.194.625	3.363.339
Fees and compensations loss (206-205)	208	-	-	-	-
Net profit from sale of securities per fair value in Profit and loss account	209	96	9.162	-	15.929
Net loss from sale of securities per fair value in Profit and loss account	210	-	-	-	-
Net profit from sale of securities	211	35.528	35.528	1	1.738
Net loss from sale of securities	212	-	-	-	-
Net profit from sale of securities held to maturity	213	-	-	-	-
Net losses from sale of securities held to maturity	214	-	-	-	-
Net profit from sale of participation shares (participations)	215	-	-	-	-
Net losses from sale of participation shares (participations)	216	-	-	-	-
Net profit from sale of other investment	217	584	824	-	-
Net losses on sale of other investment	218	-	-	-	-
Net income from exchange rate changes	219	-	-	-	-
Net expenses from exchange rate changes	220	3.055.471	4.301.773	504.732	929.062
Income from dividends and participation	221	648	2.281	709	2.908
Other operating income	222	56.093	208.734	78.134	171.699
Net income from indirect write-off of advances and provisioning	223	-	-	-	-
Net expenses on indirect write-off of advances and provisioning	224	729.311	2.130.554	694.304	1.492.718
Saleries, Wages, and other personal indemnites	225	1.038.507	3.129.110	1.050.194	3.145.638
Depreciation costs	226	210.508	631.492	203.158	589.991
Other operating expenses	227	1.420.574	4.309.474	1.227.299	3.749.450
Income from change in value of assets and liabilities	228	3.312.111	5.388.094	1.040.930	6.058.887
Expenses on change in value of assets and liabilities	229	312.219	1.216.119	574.924	5.192.995
PROFIT FROM REGULAR OPERATIONS (203-204+207-208+209-210+211 -212+213-214+215-216+217-218+219-220+221 +222+223-224-225-226-227+228-229)	230	1.153.742	3.548.875	1.399.820	3.982.327
LOSSES FROM REGULAR OPERATIONS (204-203+208-207+210-209+212-211 +214-213+216-215+218-217+220-219-221 -222+224-223+225+226+227-228+229)	231	-	-	-	-
NET PROFIT OF BUSINESSES TO BE CEASED	232	-	-	-	-
NET LOSS OF BUSINESSES TO BE CEASED	233	-	-	-	-
RESULT FOR THE PERIOD - PROFIT BEFORE TAX (230-231+232-233)	234	1.153.742	3.548.875	1.399.820	3.982.327
RESULT FOR THE PERIOD - LOSSES BEFORE TAX (231-230+233-232)	235	-	-	-	-
Tax on profit	236				
Profit from created deferred tax assets and decrease of deferred tax liabilities	237				
Loss from decrease of deferred tax assets and creation of deferred tax liabilities	238				
PROFIT (234-235-236+237-238)	239	1.153.742	3.548.875	1.399.820	3.982.327
LOSSES (235-234+236+238-237)	240	-	-	-	-
Earnings per share (in dinars)	241				
Basic earnings per share (in dinars)	242				
Diluted earnings per share (in dinars)	243				

Coloumn 3 za 1 quartal 01.01.-31.03., 2 quartal 01.04.-30.06., 3 quartal 01.07.-30.09.
Coloumn 4 za 1 quartal 01.01.-31.03., 2 quartal 01.01.-30.06., 3 quartal 01.01.-30.09.

CASH FLOW STATEMENT

from 01.01.2014. to 30.09.2014.

(in RSD thousand)

POSITION	ADP code	Amount 01.01. - 30.09.2014.	Amount 01.01. - 30.09.2013.
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflows from operating activities (from 302 to 305)	301	19.495.602	19.751.814
1. Inflows from interest	302	15.209.280	15.542.802
2. Inflows from allowances	303	4.124.856	4.067.010
3. Inflows from other operating income	304	159.853	139.094
4. Inflows from dividends and participation in profit	305	1.613	2.908
II. Cash outflows from operating activities (from 307 to 311)	306	12.744.668	12.980.810
5. Outflows from interest	307	4.726.852	5.397.061
6. Outflows from allowances	308	698.556	686.748
7. Outflows from gross salleries, wages and other personal indemnities	309	2.827.198	3.040.199
8. Outflows from taxes, contributions and other obligations from income	310	560.018	645.131
9. Outflows from other operating expenses	311	3.932.044	3.211.671
III. Net cash inflow from operating activities prior to increase or decrease in advances and deposits (301 minus 306)	312	6.750.934	6.771.004
IV. Net cash outflow from operating activities prior to increase or decrease in advances and deposits (306 minus 301)	313	-	-
V. Decrease in advances and increase in deposits withdrawn (from 315 to 317)	314	22.238.795	22.885.624
10. Decrease in loans and advances to banks and clients	315	11.696.065	-
11. Decrease in securities per fair value in profit and loss account, tradeable advances and short-term securities held to maturity	316	-	7.101.735
12. Increase in banks and clients deposits	317	10.542.730	15.783.889
VI. Increase in advances and decrease in deposits withdrawn (from 319 to 321)	318	3.200.389	27.778.558
13. Increase in loans and advances to banks and clients	319	-	27.778.558
14. Increase in securities per fair value in profit and loss account, tradeable advances and short-term securities held to maturity	320	3.200.389	-
15. Decrease in deposits from banks and clients	321	-	-
VII. Net cash inflow from operating activities before tax on profit (312 minus 313 plus 314 minus 318)	322	25.789.340	1.878.070
VIII. Net cash outflow from operating activities before tax on profit (313 plus 318 minus 312 minus 314)	323	-	-
16. Profit tax paid	324	378.559	505.544
17. Dividends paid	325	485.149	260.054
IX. Net cash inflow from operating activities (322 minus 323 minus 324 minus 325)	326	24.925.632	1.112.472
X. Net cash outflow from operating activities (323 minus 322 plus 324 plus 325)	327	-	-
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash inflows from investing activities (from 329 to 333)	328	15.297.843	6.956.638
1. Inflows from long-term investment in securities	329	15.289.289	6.949.640
2. Inflows from sale of shares (participation)	330	-	-
3. Inflows from sale of intangible and fixed assets	331	8.554	6.998
4. Inflows from sale of investment immovables	332	-	-
5. Other inflows from investing activities	333	-	-
II. Cash outflows from investing activities (from 335 to 339)	334	41.135.581	21.745.730
6. Outflows from investment in long-term securities	335	40.724.368	21.142.231
7. Outflows from purchase of shares (participation)	336	-	976
8. Outflows from purchase of sale of intangible and fixed assets	337	410.624	602.523
9. Outflows from purchase investment immovables	338	589	-
10.Other outflows from investing activities	339	-	-
III. Net cash inflow from investing activities (328 minus 334)	340	-	-
IV. Net cash outflow from investing activities (334 minus 328)	341	25.837.738	14.789.092
V. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (from 343 to 348)	342	210.440	10.255.469
1. Inflows from capital increase	343	-	-
2. Net cash inflows from subordinated obligations	344	210.440	44.305
3. Net cash inflows from loans received	345	-	10.211.164
4. Net inflows from securities	346	-	-
5. Net inflows from sale of own shares	347	-	-
6. Other inflows from financing activities	348	-	-
II. Cash outflows from financing activities (from 350 to 354)	349	144.555	-
7. Outflows from purchase of own shares	350	-	-
8. Net outflows from subordinated obligations	351	-	-
9. Net cash outflows from loans received	352	144.555	-
10. Net outflows from securities	353	-	-
11. Other outflows from financing activities	354	-	-
III. Net cash inflow from financing activities (342 minus 349)	355	65.885	10.255.469
IV. Net cash outflow from financing activities (349 minus 342)	356	-	-
G. TOTAL NET CASH INFLOWS (301 plus 314 plus 328 plus 342)	357	57.242.680	59.849.545
D. TOTAL NET CASH OUTFLOWS(306 plus 318 plus 324 plus 325 plus 334 plus 349)	358	58.088.901	63.270.696
DJ. NET INCREASE IN CASH (357 minus 358)	359	-	-
E. NET DECREASE IN CASH (358 minus 357)	360	846.221	3.421.151
Ж. CASH AT THE BEGINNING OF THE YEAR (Note: ___) (361, col. 3 = 001, col. 6)	361	41.137.794	40.514.180
Z. PROFIT ON EXCHANGE	362	4.380.450	1.449.704
I. LOSS ON EXCHANGE	363	8.682.223	2.378.766
J. CASH AT END-PERIOD (Note: ___) 359 minus 360 plus 361 plus 362 minus 363) (364, col. 3 = 001, col. 5 and 364, col. 4 = 001, col. 6) (364, col. 4 = 361, col. 3)	364	35.989.800	36.163.967

Coloumn 3 for 1 quartal 01 01 -31 03 , 2 quartal 01 01 -30 06 , 3 quartal 01 01 -30 09

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

from 01.01.2014. to 30.09.2014.

CAPITAL CHANGES STATEMENT

(in RSD thousand)

DESCRIPTION	ADP	Share capital (acc. 800)	ADP	Other capital (acc. 801)	ADP	Subscribed share capital unpaid (acc. 803)	ADP	Share Premium (acc. 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82, except for acc.823)	ADP	Profit (group of accounts 83)	ADP	Losses up to equity (acc. 840, 841)	ADP	Own shares (acc. 128)	ADP	Unrealized losses on securities for sale (acc.823)	ADP	Total (col. 2+3-4+5+6+7+8-9-10-11)	ADP	Losses above equity(acc. 842)
1		2		3		4		5		6		7		8		9		10		11		12		13
State at 1 January, of the previous 2013. year	401	17 191 466	414		427		440	22 843 084	453	14 785 440	466	867 774	479	4 185 812	492		505		518	7 016	531	59 866 560	544	
Correction of material important mistakes and changes of accounting policies in the prior year - increase	402		415		428		441		454		467		480		493		506		519		532		545	
Correction of material important mistakes and changes of accounting policies in the prior year - decrease	403		416		429		442		455		468		481		494		507		520		533		546	
Corrected opening balance as at 1 January of the previous 2013 year (no.1+2-3)	404	17 191 466	417		430		443	22 843 084	456	14 785 440	469	867 774	482	4 185 812	495		508		521	7 016	534	59 866 560	547	
Total increase in the previous year	405		418		431		444		457	1 850 000	470	1 432 418	483	4 686 363	496		509		522	406 379	535	7 562 402	548	
Total decrease in the previous year	406		419		432		445		458		471	508 924	484	2 184 204	497		510		523	226 384	536	2 466 744	549	
State at 31 December of the previous 2013 year (no. 4+5-6)	407	17 191 466	420		433		446	22 843 084	459	16 635 440	472	1.791 268	485	6 687 971	498		511		524	187 011	537	64 962 218	550	
Correction of material important mistakes and changes of accounting policies in the current year - increase	408	0	421		434		447		460		473		486		499		512		525		538		551	
Correction of material important mistakes and changes of accounting policies in the current year - decrease	409	0	422		435		448		461		474		487		500		513		526		539		552	
Corrected opening balance as at 1 January of the current 2014 year (no. 7+8-9)	410	17 191 466	423		436		449	22 843 084	462	16 635 440	475	1.791 268	488	6 687 971	501		514		527	187 011	540	64 962 218	553	
Total increase in the current year	411		424		437		450		463		476	819 923	489	3 554 392	502		515		528	153 180	541	4 221 135	554	
Total decrease in the current year	412		425		438		451		464		477	429 212	490	612 843	503		516		529	200 102	542	841 953	555	
State at 30 September of the current 2014 year (no.10+11-12)	413	17 191 466	426		439		452	22 843 084	465	16 635 440	478	2 181 979	491	9 629 520	504		517		530	140 089	543	68 341 400	556	

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

NOTES

TO FINANCIAL STATEMENTS FOR THE THIRD QUARTER OF 2014

Belgrade, October 2014

1. INCORPORATION AND OPERATION OF THE BANK

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

As at 30.09.2014, 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 September 30th, 2014, the Bank consisted of the Head Office in Belgrade located at 14, Svetog Save Street, 24 branches and 225 sub-branches.

As of September 30th, 2014, the Bank had 2,928 employees, and on 31st December 2013, the number of employees was 2,966. Tax ID number of the Bank is 100001931.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Statement of Compliance

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

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

When preparing and presenting periodical financial statements for January-September 2014 period, the Bank was using the same accounting policies and calculation methods as used when preparing the Annual Financial Statements for the year 2013.

The enclosed financial statements are prepared in the format prescribed by the Instruction on the manner in which public companies and certain companies related with them present information to the Securities Commission in conformity with the Law on Capital Market (RS Official Gazette, number 31/2011). The prescribed set of quarterly financial statements includes Balance Sheet, Income Statement, 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. BALANCE SHEET AND INCOME STATEMENT STRUCTURE, OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS

BALANCE SHEET

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

In thousand RSD

	30.09.2014		31.12.2013	
ASSETS	Amount	%	Amount	%
Cash and cash equivalents	35,989,800	9.47	41,137,794	11.31
Callable deposits and loans	42,047,706	11.06	53,395,120	14.68
Receivables based on interest, fees, sales, change in fair value, derivatives and other receivables	3,479,889	0.92	2,788,176	0.77
Loans and deposits	187,391,600	49.30	184,004,121	50.60
Securities (without treasury shares)	86,195,719	22.68	57,001,465	15.67
Stakes (equities)	6,092,343	1.60	6,054,110	1.66
Other investments	2,761,397	0.73	2,929,218	0.81
Intangible investments	455,127	0.12	537,445	0.15
Fixed assets and investment properties	8,212,377	2.16	8,386,224	2.31
Non-current assets intended for sale and assets of discontinued operations	65,697	0.02	71,630	0.02
Deferred tax assets	95,460	0.03	-	0.00
Other assets	7,311,873	1.91	7,349,063	2.02
TOTAL ASSETS	**380,098,988**	**100.00**	**363,654,366**	**100.00**

In thousand RSD

LIABILITIES	30.09.2014 Amount	%	31.12.2013 Amount	%
Transaction deposits	53,014,430	13.95	53,217,378	14.63
Other deposits	214,859,452	56.53	202,380,166	55.65
Loans received	28,294,018	7.44	1,619,990	0.45
Liabilities based on interest, fees, and change in derivatives' value	119,877	0.03	255,888	0.07
Provisions	1,551,267	0.41	765,132	0.21
Tax liabilities	75,461	0.02	21,616	0.01
Liabilities from profit	277,369	0.07	150,124	0.05
Deferred tax liabilities	105,616	0.03	10,156	-
Other liabilities	13,460,098	3.54	40,271,698	11.07
Capital	68,341,400	17.98	64,962,218	17.86
TOTAL LIABILITIES	**380,098,988**	**100.00**	**363,654,366**	**100.00**

INCOME STATEMENT

Income and expense structure and their share in the corresponding 2014 Income Statement categories are as follows:

In thousand RSD

INCOME	30.09.2014 Total	30.09.2013 Total
Interest income	16,398,167	16,316,109
Fee and commission income	4,112,999	4,046,770
Net profit based on sale of securities at fair value through Profit & Loss	9,162	15,929
Net profit based on sale of securities available for sale	35,528	1,738
Net profit from sale of other investments	824	-
Net FX gains	-	-
Income from dividends and stakes	2,281	2,908
Other operating income	208,734	171,699
Income based on change in the value of property and receivables	5,388,094	6,058,887

In thousand RSD

EXPENSES	30.09.2014 Total	30.09.2013 Total
Interest expense	6,192,020	6,848,428
Fee and commission expense	696,372	683,431
Net expense based on exchange differentials	4,301,773	929,062
Net expenses based on indirect write-off of loans and provisions	2,130,554	1,492,718
Costs of wages, allowances and other personnel expenses	3,129,110	3,145,638
Depreciation costs	631,492	589,991
Operating and other operating expenses	4,309,474	3,749,450
Expenses based on change in the value of property and liabilities	1,216,119	5,192,995
Result of the period (profit)	**3,548,875**	**3,982,327**

CASH FLOW STATEMENT

In thousand RSD

Item	30.09.2014 Total	30.09.2013 Total
Cash inflows from operating activities	**19,495,602**	**19,751,814**
Inflow from interest	15,209,280	15,542,802
Inflow from fees	4,124,856	4,067,010
Inflow from other operating income	159,853	139,094
Inflow from dividends and share in the profit	1,613	2,908
Cash outflows from operating activities	**12,744,668**	**12,980,810**
Outflow based on interest	4,726,852	5,397,061
Outflow based on fees	698,556	686,748
Outflow based on gross wages, allowances and other personnel expenses	2,827,198	3,040,199
Outflow based on taxes, contributions and other charges against income	560,018	645,131
Outflows based on other operating costs	3,932,044	3,211,671
Net cash inflow from operating activities before increase or decrease in loans and deposits	**6,750,934**	**6,771,004**
Decrease in lending and increase in deposits	**22,238,795**	**22,885,624**
Decrease in loans and lending to customers	11,696,065	-
Decrease in securities at fair value through Income Statement, investments held for trading and short-term securities held to maturity	-	7,101,735

	30.09.2014	30.09.2013
Item	Total	Total
Increase in deposits from banks and customers	10,542,730	15,783,889
Increase in loans and decrease in deposits from customers	**3,200,389**	**27,778,558**
Increase in loans and advances to banks and customers	-	27,778,558
Increase in securities at fair value through Income Statement, trading investments and short-term securities held to maturity	3,200,389	-
Decrease in deposits from banks and customers	-	-
Net cash inflow from operating activities before profit tax	**25,789,340**	**1,878,070**
Net cash outflow from operating activities before profit tax	**-**	**-**
Paid profit tax	378,559	505,544
Paid dividends	485,149	260,054
Net cash inflow from operating activities	**24,925,632**	**1,112,472**
Net cash outflow from operating activities	**-**	**-**
Cash inflows from investment activities	**15,297,843**	**6,956,638**
Inflow from long-term investment in securities	15,289,289	6,949,640
Inflow from sale of intangible investments and fixed assets	8,554	6,998
Cash outflows from investment activities	**41,135,581**	**21,745,730**
Outflow based on investment in long-term securities	40,724,368	21,142,231
Outflow for purchase of stakes (equities)	-	976
Outflow for purchase of intangible investments and fixed assets	410,624	602,523
Outflows arising from purchase of investment properties	589	-
Net cash outflows from investment activities	**25,837,738**	**14,789,092**
Cash inflows from financing activities	**210,440**	**10,255,469**
Net cash inflows based on subordinated debt	210,440	44,305
Net cash inflows based on borrowings	-	10,211,164
Cash outflows from financing activities	**144,555**	**-**
Net cash outflows based on borrowings	144,555	-
Net cash outflows based on subordinated debt	-	-
Net cash inflow from financing activities	**65,885**	**10,255,469**
Net cash outflow from financing activities	**-**	**-**

Total net cash inflow	**57,242,680**	**59,849,545**
Total net cash outflow	**58,088,901**	**63,270,696**
Net cash increase	**-**	**-**
Net cash decrease	**846,221**	**3,421,151**
Cash at the beginning of the year	**41,137,794**	**40,514,180**
Positive exchange rate differentials	**4,380,450**	**1,449,704**
Negative exchange rate differentials	**8,682,223**	**2,378,766**
Cash at the period-end	**35,989,800**	**36,163,967**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

Net interest income in the period from January – September 2014 totalled RSD 10,206,147 thousand and was RSD 738,466 thousand or 7.8% higher compared to the same quarter of the preceding 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 is 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 is accrued in accordance with the period of duration and is recognized in the Income Statement proportionally to the duration period.

Net fee income in the period from January – September 2014 amounted to RSD 3,416,627 thousand and was 1.58% or RSD 53,288 thousand higher than in the same period in 2013.

3.3. Income and Expenses Based on Securities

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

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

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

In the observed period of 2014 the Bank generated net profit from sale of securities at fair value in the amount of RSD 9,162 thousand (old FX savings bonds, series 2014) and from the sale of securities available for sale in the amount of RSD 35,528 thousand (RS T-bills in RSD).

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

Dividends received based on investment in the shares of other legal entities in the amount of RSD 2,281 thousand are shown as income from dividend at the time of their collection.

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

3.4. Re-statement of FX Amounts – Income and Expenses from Exchange Rate Differentials

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.

Net FX losses in the reporting period, January through September 2014, totalled RSD 4,301,773 thousand. This is a direct result of the trends in RSD exchange rate against the currency basket between the two observed reporting periods and a result of managing the Bank's FX position which, apart from the FX positions, also includes the RSD positions with currency clause, as a form of protection against FX risk (link to note 3.10).

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 208,734 thousand, other operating revenues account for the largest share of 62.75 % (87.13% in the previous year) which mainly refers to the income from renting the real estate amounting to RSD 69,104 thousand. Other operating revenues came as a result of the compensation for mobile telephone expenses, court expenses and cost of utility services, and also as a result of income from damages paid by insurance companies. Within other income the most significant items relate to interest income from previous years generated from agriculture and retail operations in the total amount of RSD 40,584 thousand.

3.6. Net Expenses for Indirect Write-Off of Loans and Provisions

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 acts special policies and procedures for identifying the non-performing assets and for managing such assets.

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

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

Net expenses from indirect write-off of loans and provisions amount to RSD 2,130,554 thousand, and are RSD 637,836 thousand or 42.73% higher compared to the same period of 2013, primarily due to the Bank's priority to maintain credit risk at a level acceptable for the Bank.

3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses amounting to RSD 3,129,110 thousand are by RSD 16,528 thousand or 0.52% lower compared to the same period last year.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 631,492 thousand increased compared to the period January – September, 2013 by RSD 41,501 thousand or 7.03 %, mainly due to the newly purchased fixed assets and intangible investments during the previous and this year.

3.9. Operating Expenses and Other Operating Expenses

Operating expenses and other operating expenses reached RSD 4,309,474 thousand having increased compared to the same period last year by RSD 560,024 thousand or 14.94%, primarily due to more restrictive regulations related to deposit insurance, consequence being the increase of expenses of RSD 319,787 thousand.

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

- costs of production services in the amount of RSD 1,610,435 thousand, followed by the highest sums for: rental costs of office space and equipment and advertising space in the amount of RSD 496,129 thousand, as well as the advertising and marketing costs in the amount of RSD 299,215 thousand and cost of equipment lease for printing services to the amount of RSD 49,746 thousand.

- intangible costs totalling RSD 1,611,696 thousand, the highest individual item being the cost of deposit insurance coming to RSD 956,236 thousand. The reason of such sudden increase of deposit insurance is the introduction by NBS of additional deposit insurance premium at the rate of 0.05% i.e. 50% of the regular premium and,

- cost of materials amounting to RSD 297,552 thousand.

3.10. Income and Expenses Based on Revaluation of Property and Liabilities

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

In the period from January – September 2014 income from revaluation of assets and liabilities amounted to RSD 5,388,094 thousand, and expenses for this amounted to RSD 1,216,119 thousand; this makes for net income of RSD 4,171,975 thousand. The declared net income is mainly under direct influence of trends in RSD exchange rate for loans and liabilities contracted with the currency clause (EUR, USD and CHF) as a form of protection against the risk and management of the Bank's FX position, which includes FX positions, as well.

BALANCE SHEET

Total balance sheet sum on 30.09.2014 amounts to RSD 380,098,988 thousand, which is an increase from the start of the year of RSD 16,444,622 thousand or 4.52%. The increase came mostly as a result of a growth of deposits.

ASSETS

In total Bank's assets, loans and deposits to customers had a dominant share of 49.30% (2013:50.60%) followed by securities (treasury securities excluded) with a share of 22.68% (2013: 15.67%), callable deposits and loans with a share of 11.06% (2013: 14.68%) and cash and cash equivalents with a share of 9.47% (2013: 11.31%).

3.11. Cash and Cash Equivalents

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

As at 30.09.2014, cash and cash equivalents amount to RSD 35,989,800 thousand and account for 9.47% of total Bank's assets (11.31% on 31.12.2013). Compared to December 31st 2013, this item decreased by RSD 5,147,994 thousand, which came as a result of higher net outflow for investments, mostly into securities.

3.12. Callable Deposits and Loans

As at 30.09.2014, callable deposits and loans with the balance of RSD 42,047,706 thousand and the percentage share of 11.06% in total assets, decreased in comparison to the year 2013 by RSD 11,347,414 thousand or 21.25%. The net decrease is the result of current decrease in REPO lending transactions in dinars by RSD 12,247,700 thousand and an increase in FX required reserves with the NBS of RSD 899,285 thousand.

3.13. Loans and Deposits to 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 expense from revaluation of property and liabilities.

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.

Loans and deposits to customers in the amount of RSD 187,391,600 thousand and with a share of 49.30% in total assets in 2014, are higher compared to 2013 by RSD 3,387,479 thousand or 1.84%, with the largest percentage of share in total assets, as was the case in 2013. The achieved net increase is, to the largest extent, the result of increase in retail lending of 10.8% and loans to banks of 15.6%, whereas corporate lending decreased by 4.3%. Decreasing trend in corporate lending (caused by collection of part of matured loans, by prepayment of certain loans and reduced demand for loans) was stopped in September, as a result of growth of subsidized loans and an increase in RSD equivalent of loans with foreign currency clause, caused by the increase in the exchange rate of foreign currencies.

3.14. Securities (Treasury Shares Excluded)

Investments in securities other than treasury shares amounting to RSD 86,195,719 thousand or 22.68% share in the total assets recorded an increase compared to 2013 by RSD 29,194,254 thousand, or 51.22% as a result of increased investments in bonds and treasury bills of the Republic of Serbia in foreign currency amounting to RSD 54,223,547 thousand and investments in securities of the Republic of Serbia in dinars in the amount of RSD 31,914,302 thousand.

3.15. Equities

Equities as of 30.09.2014 amounted to RSD 6,092,343 thousand and account for 1.60% of the total assets. Increase compared to 31.12.2013 to the amount of RSD 38,233 thousand primarily resulted from the adjustment to fair value of equities in banks, insurance companies and foreign entities operating abroad (Master and Visa International Companies).

3.16. Other Investments, Intangible Investments, Fixed Assets and Investment Properties, Non-Current Assets Intended for Sale, Deferred Tax Assets and Other Assets

All listed positions account for only 4.97% of the total assets, the highest percentage of which refers to fixed assets and investment properties totalling 2.16%, followed by other assets 1.92% and other loans 0.73%. Other assets, amounting to RSD 7,311,873 thousand, decreased by RSD 37,190 thousand when compared to 2013, mostly due to the fact that the reduction of receivables from buying and selling currencies on the FOREX market was greater than an increase of the item “funds acquired through collection of receivables” and other categories of other loans.

Receivables under court proceedings with Takovo for disputed interest in the amount of RSD 334,110 thousand are closed, since the disputed interest has been collected, along with the default interest on that amount, equalling RSD 83,065 thousand.

LIABILITIES

In the period January – September 2014 there were changes in the structure of liabilities compared to December 31st, 2013. The borrowings changed against other liabilities, and this was caused by the reclassification of foreign credit lines, as requested by NBS. Deposits and capital still dominate the structure of liabilities with a total percentage of 88.45 % (2013: 88.15%) of total liabilities. Other items account for 11.55% of total liabilities, with the borrowings (as credit lines) accounting for the highest portion of this item – 7.44%.

3.17. Deposits

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 with the depositors an interest rate that depended on the amount of deposit.

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

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

The most significant share in the structure of liabilities was that of other deposits in the amount of RSD 214,859,452 thousand, which represented 56.53% of total liabilities (2013: 55.65%) followed by transaction deposits in the amount of RSD 53,014,430 thousand with a share of 13.95% (2013: 14.63%) and capital in the amount of RSD 68,341,400 thousand with a share of 17.98% (2013: 17.86%).

When compared to 2013, the Bank decreased the level of transaction deposits by RSD 202,948 thousand or 0.39%, while other deposits recorded an increase of RSD 12,479,286 thousand or 6.17%. Net decrease in transaction deposits is a result of a greater decrease in RSD transaction deposits in the amount of RSD 5,200,454 thousand compared to the growth of transaction deposits in foreign currency in the amount of RSD 4,977,506 thousand. In the structure of transaction deposits, deposits in local currency continued to be dominant with the share of 65.24%, while the remaining 34.76% relates to deposits in foreign currency. In other deposits, the FX deposits are predominant with share of 87.71%, while the share of Dinar deposits is 12.29%. FX savings increased by EUR 46.2 million.

3.18. Borrowings

The borrowings reached RSD 2,294,018 thousand which is 7.44% of total liabilities. There was an increase compared to 2013 in the amount of RSD 26,674,028 thousand as a result of reclassification and removal of the item *liabilities for foreign credit lines* from the *other liabilities* item (please refer to note 3.20). This reclassification was carried out in accordance with the ordering letter of NBS with the aim of adjusting the contents of the item *balance-sheet* with the contents prescribed by the European Central Bank.

3.19. Provisions

The Bank's provisions of RSD 1,551,267 thousand include the provisions for: coverage of liabilities (lawsuits), long-term employees' wages, and provisions for losses under off-balance sheet assets. In the observed period, compared to 2013, the provisions increased by RSD 786,135 thousand. The increase mainly refers to additional provisions for court proceedings with respect to court procedure with the company Inex Interexport a.d. in bankruptcy.

By Decision of the Supreme Court of Cassation ref. 10/2014 dated 03.04.2014, the Decision of the Commercial Appellate Court PŽ 5668/13 was cancelled as was the Decision of the Commercial Court in Belgrade P-6020/12 (according to which the Bank paid in December 2013 to the company Inex the amount of RSD 757,070 thousand) and the case was returned to the first instance court for retrial. Pursuant to the stated Decision, Inex returned to the Bank the mentioned amount until the court procedure is finalized – until retrial. The Bank has made provisions for court proceedings in full amount of returned funds.

3.20. Other liabilities

Compared to 2013 other liabilities were lower by 26,811,600 thousand as a result of reclassification of foreign credit lines in RSD and in foreign currency from *other liabilities* into *borrowings* in the total amount of 27,279,533 thousand. Reclassification was done in accordance with the NBS request.

3.21. Capital

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

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

As at September 30th, 2014, the Bank's capital consists of:

In thousand RSD	2014	2013
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	16,635,440	16,635,440
Revaluation reserves	2,181,979	1,791,268
Unrealized losses based on securities available for sale	(140,089)	(187,011)
Reserves	18,677,330	18,239,697
Accumulated profit	9,629,520	6,687,971
Balance	**68,341,400**	**64,962,218**

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

The share capital was formed by initial investments made by the shareholders and later issues of new shares. The shareholders have the right to manage the Bank, as well as the right to participate in the profit distribution.

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

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

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

The capital adequacy ratio of the Bank as at September 30th, 2014, calculated based on the financial statements, is 16.78% calculated by application of the decisions of the National Bank of Serbia made public for the year 2014.

Moreover, the Bank is bound to maintain the cash portion of capital at the level of EUR 10,000 thousand. As at 30.09.2014, the cash portion of capital was above the prescribed level.

The structure of the share capital – ordinary shares as at September 30th, 2014 was as follows:

Shareholder Name	%of share
Republic of Serbia	42.60
EBRD, LONDON	25.00
Jugobanka AD Beograd in bankruptcy	3.69
INVEJ DOO, Beograd	2.64
Evropa osiguranje AD Веоград in bankruptcy	2.34
EAST CAPITAL (lux) BALKAN FUND	2.39
Kompanija Dunav, Beograd	1.97
UNICREDIT BANK Srbija – custody account 1	1.79
EAST CAPITAL (lux) EASTERN EUR	1.71
UNICREDIT BANK Srbija – custody account 2	1.71
STANKOM CO DOO BEOGRAD	1.35
Others	12.81
TOTAL	100.00

According to the Decision of the General Meeting of Bank's Shareholders No.5060/3 dated 17.04.2013 the profit from 2013 was distributed. Distribution anticipated the amount of RSD 604,620 thousand in total to be allocated for payment of dividends, as follows: for preference convertible shares RSD 567,605 thousand and for the priority shares RSD 37,015 thousand.

4. RELATIONS WITH SUBSIDIARIES

4. A. Balance as at 30.09.2014

RECEIVABLES RSD thousand

Subsidiary	Loans and advances	Interests and fees	Other assets	Impairments	Net BS exposure	Off-balance	Total
1. Kom. banka AD Budva	6,294	857	-	-	7,151	-	7,151
2. Kom.banka AD Banja Luka	240,799	-	903	-	241,702	356,553	598,255
3. Kombank INVEST	-	-	-	-	-	200	200
TOTAL	**247,093**	**857**	**903**	-	**248,853**	**356,753**	**605,606**

LIABILITIES RSD thousand

Subsidiary	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom. banka AD Budva	178,101	-	1,660	179,761
2. Kom.banka AD Banja Luka	18,767	-	-	18,767
3. Kombank INVEST	284	-	-	284
TOTAL:	**197,152**	**-**	**1,660**	**198,812**

INCOME AND EXPENSES for period 01.01 – 30.09.2014 RSD thousand

Subsidiary	Interest income	Fees and commission income	Interest expenses	Fees and commissi on expenses	Net income / expenses
1. Kom. banka AD Budva	11,075	1,544	-	(527)	12,092
2. Kom.banka AD Banja Luka	7,549	873	-	(1,223)	7,199
3. Kombank INVEST	-	36	(19)	-	17
TOTAL:	**18,624**	**2,453**	**(19)**	**(1,750)**	**19,308**

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange gains of RSD 6,088 thousand.

4. B. Balance as at 31.12.2013

RECEIVABLES RSD thousand

Subsidiary	Loans& advances	Interest and fees	Other assets	Impairment	Net BS exposure	Off-balance	Total
1. Kom.bank AD Budva	430,157	825	4,253	-	435,235	-	435,235
2. Kom.bank AD Banja Luka	232,271	-	2,646	-	234,917	343,926	578,843
3.Kombank INVEST	-	1	-	-	1	200	201
TOTAL:	**662,428**	**826**	6,899	-	**670,153**	**344,126**	**1,014,279**

LIABILITIES RSD thousand

Subsidiary	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom. banka AD Budva	147,914	-	1,601	149,515
2. Kom.banka AD Banja Luka	9,228	-	-	9,228
3. Kombank INVEST	12,940	13	-	12,953
TOTAL:	**170,082**	**13**	**1,601**	**171,696**

INCOME AND EXPENSES for period 01.01- 30.09.2013 RSD thousand

Subsidiary	Interest income	Fee and commission income	Interest expense	Fee and commission expense	Net income / expense
1. Kom. banka AD Budva	670	1,113	-	(693)	1,090
2. Kom.banka AD Banja Luka	476	472	(368)	(232)	348
3. Kombank INVEST	-	39	(900)	-	(861)
TOTAL:	**1,146**	**1,624**	**(1,268)**	**(925)**	**577**

Based on the transactions with affiliated members, Komercijalna Banka ad Beograd recorded net foreign exchange loss in the amount of RSD 8,980 thousand.

5. RISK MANAGEMENT

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

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

Risk management process involves clear determining and documenting risk profile and adjusting risk profile to the Bank's aptitude to assume risks it is or may be exposed in accordance with adopted strategies and policies.

The basic objectives that the Bank set for the risk management system in its internally adopted acts on risk management strategy and capital management strategy are the following: minimizing the negative effects on financial result and equity within acceptable risk levels, maintaining the required level of capital adequacy, developing the Bank's activities in accordance with business opportunities and market development with a view to gaining competitive advantage.

The Bank implements Basel II standards and permanently monitors all the announcements and amendments to the effective regulations, analyzes the risk levels and undertakes measures for timely reconciliation of its operations with newly enacted regulations in accordance with the risk level acceptable to the Bank. Through the clearly defined process of introducing new products, the Bank analyzes the influence of all new services and products on the future risk exposures in order to optimize its revenues and losses based on the estimated risk as well as to minimize all potential adverse effects on the Bank's financial result.

Risk Management System

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

- Risk Management Strategy and Capital Management Strategy;
- Risk Management Policies;
- Risk Management Procedures;
- Methodologies for managing individual risks; and
- Other enactments.

Risk Management Strategy sets out:

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

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

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

Policies for managing certain risk types define the following:

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

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

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

Competencies

The Board of Directors is authorized and responsible for establishing a uniform risk management system and for monitoring such system, adopting policies and procedures for risk management and capital management strategy, establishment of internal control system, supervision of the work of the Executive Board and execution of the process of internal capital adequacy assessment.

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the Bank is exposed to.

The Audit Committee is authorized and responsible for continued analysis and monitoring of the adequate implementation of the adopted risk management strategies and policies and internal control system. At least monthly, the Audit Committee reports to the Board of Directors on its activities and identified irregularities and proposes how to eliminate them.

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

The Credit Committee decides on loan approval requests within framework determined by the Bank's enactments, analyses the Bank's exposure credit, interest rate and currency risk, analyzes loan portfolio and proposes measures to be taken to the Executive Board.

The Debt Collection Committee is authorized and responsible for managing risk-weighted placements; it makes decisions on the write-off of risk-weighted loans up to set limits of authorization and recommends write-off of loans to the Executive Board and Board of Directors exceeding its limits of authorization.

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

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

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

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

Risk Management Process

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

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

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

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

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

Types of Risk

In its business operations the Bank is exposed to the following risks in particular: credit risk and related risks, liquidity risk, market risk and operational risk, investment risk, country risk, exposure risk and all other risks that may occur in the course of the Bank's regular operations.

5.1. CREDIT RISK

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

- **Default risk** - the risk of loss that may arise if a debtor fails to settle liabilities toward the Bank;
- **Downgrade risk** - the risk of loss that may arise if a risk level of a debtor is downgraded (deterioration of the customer credit rating);
- **Risk of change in the value of assets** - the risk of loss that may arise on assets in the event of a decline in their market value as compared to the price at which assets were acquired;
- **Credit foreign exchange risk** – represents probability that the Bank will incur a loss due to default of the debtor in liability settlement within contractually defined terms, which is caused by adverse impact of the RSD exchange rate changes on the debtor's financial situation;
- **Concentration risk** – represents a risk that is a direct or indirect outcome of the Bank's exposures the same or similar risk factor or type, such as: exposure to a single entity or a group of related parties, industries, geographical regions, types of products and activities, collaterals, financial instruments;
- **Exposure risk** - is a risk that can arise from the Bank's exposure to a single entity, group of related entities or the Bank's related parties;
- **Country risk** – relates to the borrower's country of origin and represents the probability of negative effects on the Bank's financial result and equity due to the inability to collect receivables from abroad and is caused by political, economic and social conditions in the borrower's country of origin.

In addition to the aforelisted risks, the Bank also monitors the following related risks:

- **Residual risk** – is a risk that credit risk mitigation techniques may be less efficient than expected, i.e. that their application is not sufficient to alleviate the risks the bank is exposed to
- **Risk of reduced value of receivables** – is a risk of possible emergence of negative effects on the Bank's financial results and capital due to reduced value of repurchased receivables for cash on non-cash liabilities of the previous creditor to the debtor;
- **Settlement/delivery risk** – is a risk of possible emergence of negative effects on the Bank's financial results and capital due to counterparty default on free delivery transactions as of contractually defined settlement/delivery date;
- **Counterparty risk** – is a risk of possible emergence of negative effects on the Bank's financial results and capital due to counterparty failure to settle its liabilities prior to the ultimate settlement of the transaction cash flows, i.e. settlement of cash payment.

Credit Risk Management

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

The objective of credit risk management is to minimize adverse effects of the credit risk on the Bank's financial result and equity based on balance sheet and off-balance sheet investments and operations with counterparties for items carried in the banking book.

The level of credit risk exposure acceptable to the Bank is in line with the defined risk management strategy and depends on the Bank's portfolio structure based on which negative effects on the Bank's financial result is limited and capital requirements for credit risk, settlement/delivery and counterparty risk are minimized in order to maintain capital adequacy at an acceptable level. On the other hand, the Bank does not make high-risk investments such as investments in highly profitable projects with significant risk levels.

The basic principles of credit risk management are as follows:

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

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

Credit risk identification involves analysis of all indicators leading to the emergence and increase in credit risk exposure. The Bank determines the causes of the current credit risk exposure in a comprehensive and timely manner and assesses such causes based on the incurred and projected changes in the market, as well as based on the introduction of new products and activities. The Bank's credit risk depends on the debtor creditworthiness, debtor's regularity in settling liabilities due to the Bank and collateral quality.

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

The rating system is not merely an instrument for forming individual decisions and assessing risk levels of individual investments; it is also a basis for portfolio analysis, support in loan approval and loan impairment procedure as well as in estimating provisions against losses per off-balance sheet items for the purpose of loan and investment ranking by risk level and stating realistic value of receivables. Internal rating system is reviewed and improved on an ongoing basis.

In addition to the internal rating system, in credit risk analysis the Bank also uses principles prescribed by the National Bank of Serbia, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses. Application of these principles allows the Bank to cover unexpected losses due to the customer's inability to settle liabilities as they fall due, in accordance with contractually defined terms. For these purposes, the Bank classifies receivables and assesses the level of necessary reserve using the regular analysis of portfolio. The analysis includes the measurement of adequacy of reserves formed against individual borrowers, risk categories, portion of portfolio and at overall portfolio level. Reserves for estimated losses represent a certain form of hedge against potential adverse effects in case lent funds are not repaid when due and in full.

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

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

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

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

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

The basic techniques for credit risk mitigation are as follows:

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

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

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

Investment diversification is aimed at alleviating credit risk through reduction portfolio concentrations in certain segments of assets.

Monitoring loan investment quality at the individual debtor level is primarily based on obtaining updated information on the financial situation and creditworthiness of the debtor as well as on the market value of collateral, whereas credit risk monitoring at the portfolio level is performed through identification of changes at the level of client groups with certain preset levels of risk, investment, collateral and required reserves for estimated and unexpected losses for the purpose of establishing management of the asset balances and quality. For protection against credit risk exposure, in addition to the regular monitoring of the customers' business operations, the Bank contractually defines security instruments (collaterals), which reduce credit risk.

In order to protect itself from changes in the market value of collaterals (mortgages, pledges, securities etc.), the Bank adjusts the appraised collateral value for a defined percentage depending on the collateral type and location, which percentage is reviewed at least annually or more frequently as appropriate. In this way, the Bank protects itself from potential losses arising from the impossibility of collection of receivables through security instrument activation.

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

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

The Bank reschedules and restructures receivables from customers experiencing certain difficulties in operations. If the undertaken measures for regulating collection, i.e. enforced collection and court proceedings fail to provide expected results, i.e. when receivables cannot be collected in full, the Bank initiates write-off of the remaining receivables.

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

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

Downgrade Risk

The quality of the Bank's assets is measured by the level of exposure to individual risk categories according to internal rating system criteria. The internal rating system focuses on quantitative and qualitative parameters for assigning customer ratings. The rating scale consists of 5 risk categories that are subdivided into 17 subcategories. The rating scale is used as a uniform method for assigning ratings which ensures that customers with the same rating have the same credit characteristics and the same probability of default, in part or in full, over the period of one year. The basic parameters of credit risk used in determining a risk subcategory are calculated and monitored on a monthly basis.

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

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

Risk of Change in the Value of Assets

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

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

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

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

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

Individual Assessment

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

Group-Level Assessment

Impairment is assessed on a group basis for loans that are not individually significant and for individually significant loans and advances, when there is no objective evidence of individual impairment. Group assessment is performed monthly within groups that are determined based on internal methodology and internal rating system. Group impairment percentages are calculated based on migration of risk rating categories in default status per type of borrower or product. The obtained migration percentages are adjusted for collected receivables.

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

Assessment of Provisions for Probable Losses on Off-Balance Sheet Items

Assessment of provisions for losses on off-balance sheet items (contingent liabilities) is performed when it is estimated that it is fairly certain that an outflow of assets will be required to settle contingent liabilities.

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

5.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of September 30, 2014 and December 31, 2013 are presented in the table below without taking into account any collateral or any other sort of credit risk hedge. The stated values are presented in gross and net carrying amounts (after impairment effects).

Maximum credit risk exposure before collateral or any other improvements

In thousands of RSD

	30.09.2014.		31.12.2013.	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**381,795,483**	**359,110,738**	**365,452,580**	**345,075,720**
Cash and cash equivalents	35,989,800	35,989,800	41,137,794	41,137,794
Revocable deposits and loans	42,047,706	42,047,706	53,395,120	53,395,120
Receivables arising from interest, fees, commissions trade changes in the fair value of derivatives and other receivables	5,935,933	3,479,889	4,790,737	2,788,176
Loans and advances to customers	203,835,496	187,391,600	198,842,503	184,004,121
Other investments	5,993,118	2,761,397	6,052,273	2,929,218
Securities	86,310,007	86,195,720	57,006,076	57,001,465
Other assets	1,683,423	1,244,626	4,228,077	3,819,826
II. Off-balance sheet items	**31,183,958**	**30,679,832**	**30,882,511**	**30,408,862**
Payment guarantees	5,904,271	5,783,179	7,357,476	7,291,000
Performance bonds	8,145,712	8,031,869	5,787,610	5,661,141
Irrevocable commitments	16,736,468	16,736,468	16,830,341	16,830,341
Other	397,507	128,316	907,084	626,380
Total (I+II)	**412,979,441**	**389,790,570**	**396,335,091**	**375,484,582**

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

Loans and advances to customers and receivables due from banks

In thousands of RSD

30.09.2014.	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Businesses	Total Retail	Corporate Customers	Total	Due from Banks
Not matured and not impaired	-	-	-	-	-	-	6,759,335	6,759,335	8,107,692
Matured but not impaired	-	-	-	-	-	-	6,505,273	6,505,273	3,330,360
Group-level impaired	35,955,518	14,870,717	5,194,560	7,637,392	6,179,982	69,838,168	77,273,283	147,111,450	347,667
Individually impaired	818,511	-	122,047	-	841,244	1,781,803	29,891,915	31,673,719	-
Total	**36,774,029**	**14,870,717**	**5,316,607**	**7,637,392**	**7,021,226**	**71,619,971**	**120,429,806**	**192,049,777**	**11,785,719**
Impairment allowance	**469,935**	**746,919**	**366,382**	**672,653**	**824,417**	**3,080,306**	**13,015,923**	**16,096,229**	**347,667**
Group-level impairment allowance	303,213	746,919	347,505	672,653	700,516	2,770,806	6,580,127	9,350,933	347,667
Individual impairment allowance	166,722	-	18,877	-	123,901	309,500	6,435,796	6,745,296	-
Net carrying amount	**36,304,094**	**14,123,798**	**4,950,225**	**6,964,739**	**6,196,809**	**68,539,665**	**107,413,883**	**175,953,548**	**11,438,052**

The review does not include accrued interest and fees, which as of 30.09.2014. year on loans, deposits and receivables from banks totaled RSD 3,882,916 thousands (31.12.2013.: RSD 2,997,956 thousands). After impairment effects, the net carrying amount of interest and fees, as of 30.09.2014. totaled RSD 2,295,490 thousand (31.12.2013.: RSD 1,792,107 thousands).

In thousands of RSD

31.12.2013.	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Businesses	Total Retail	Corporate Customers	Total	Due from Banks
Not matured and not impaired	-	-	-	-	-	-	9,206,341	9,206,341	8,894,091
Matured but not impaired	-	-	-	-	-	-	10,049,711	10,049,711	1,000,231
Group-level impaired	33,322,704	12,702,248	4,114,157	7,882,304	5,337,991	63,359,404	74,080,872	137,440,276	319,911
Individually impaired	478,220	-	37,590	-	877,367	1,393,177	30,538,765	31,931,942	-
Total	**33,800,924**	**12,702,248**	**4,151,747**	**7,882,304**	**6,215,358**	**64,752,581**	**123,875,689**	**188,628,270**	**10,214,233**
Impairment allowance	**460,696**	**681,094**	**302,815**	**626,578**	**823,152**	**2,894,335**	**11,624,136**	**14,518,471**	**319,911**
Group-level impairment allowance	325,894	681,094	290,101	626,578	707,348	2,631,015	6,239,206	8,870,221	319,911
Individual impairment allowance	134,802	-	12,714	-	115,805	263,320	5,384,930	5,648,250	-
Net carrying amount	**33,340,228**	**12,021,154**	**3,848,932**	**7,255,726**	**5,392,206**	**61,858,246**	**112,251,553**	**174,109,799**	**9,894,322**

Impaired Loans and Advances

Impaired loans and advances are those for which the Bank has determined the existence of objective evidence of impairment and does not expect them to be collected in full amounts of principal and interest matured pursuant to the relevant loan agreements. In the internal rating system, such loans for retail and corporate customers are allocated rating from 2 to 5 and represent individually significant loans (totaling above RSD 6 million). For loans that are not individually significant impairment is determined on a group-level, depending on the categorization in to groups with similar risk levels, for all rating categories from 1 to 5.

Impairment Allowance

The Bank makes impairment allowance for loan arrangements based on the assessment of impairment. The key components of impairment allowance made in this manner are: impairment allowance related to individually significant credit risk exposures and group-level impairment allowance made for groups of similar loans where impairment has occurred but has not yet been identified (materially less significant loans) as well as for those materially significant loans that were subject to individual assessment of impairment yet no impairment was identified on an individual basis.

Receivables Matured but not Impaired

Loans and advances matured but not impaired represent those loans and advances where there is default in settling liabilities for contractually agreed interest or principal outstanding. Yet the Bank believes that it is not appropriate to make impairment allowances for such loan investments given the probability of default status occurrence for certain types of customers (migrations), the value of instruments securitizing such loans and/or certainty of debt collection on the part of the Bank.

Receivables not Matured and not Impaired

Loans and advances not matured and not impaired extended to corporate customers and banks relate to the loans approved and disbursed to state-owned companies, local self-governments, municipalities, and to deposits placed with other banks for which it is determined that it is not appropriate to make impairment allowances for such loan investments given the probability of default status occurrence for certain types of customers (migrations) and/or certainty of debt collection on the part of the Bank.

Loans and advances to customers and due from banks, not matured and not impaired

In thousands of RSD

30.09.2014.	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Businesses	Total Retail	Corporate Customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	2,634,147	2,634,147	8,107,692
Medium (IR 3)	-	-	-	-	-	-	4,125,188	4,125,188	-
High (IR 4, 5)	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**6,759,335**	**6,759,335**	**8,107,692**

31.12.2013.	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Businesses	Total Retail	Corporate Customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	5,179,605	5,179,605	8,894,091
Medium (IR 3)	-	-	-	-	-	-	4,026,736	4,026,736	-
High (IR 4, 5)	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**9,206,341**	**9,206,341**	**8,894,091**

Loans and advances to customers and due from banks, matured but not impaired

In thousands of RSD

30.09.2014.	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Businesses	Total Retail	Corporate Customers	Total	Due from Banks
Up to 30 days past due	-	-	-	-	-	-	6,276,861	6,276,861	3,330,360
31 - 90 days past due	-	-	-	-	-	-	228,412	228,412	-
Over 90 days past due	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**6,505,273**	**6,505,273**	**3,330,360**

31.12.2013.	Housing Loans	Cash Loans	Agricultural Loans	Other Loans	Micro Businesses	Total Retail	Corporate Customers	Total	Due from Banks
Up to 30 days past due	-	-	-	-	-	-	9,977,752	9,977,752	1,000,231
31 - 90 days past due	-	-	-	-	-	-	71,959	71,959	-
Over 90 days past due	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**10,049,711**	**10,049,711**	**1,000,231**

The review does not include interest and fees due date for loans and deposits of corporate clients as of 30.09.2014. in the amount of RSD 46,964 thousand (31.12.2013.: RSD 92,424 thousand) and banks in the amount of RSD 857 thousand (31.12.2013.: RSD 830 thousand).

5.1.2. Loans with Altered Initially Agreed Terms

Loans with altered initially agreed terms are those loans that are rescheduled or restructured due to the difficulties in the debtor servicing the liabilities when due.

Rescheduling of receivables is performed for debtors with currently mismatching cash inflows and outflows, yet whose financial indicators have not deteriorates suggesting that the debtor will be able to settle the rescheduled liabilities according to the subsequently agreed repayment terms. Receivables are rescheduled if due from debtors up to 90 days in default, most commonly per individual loan subaccount, i.e. not including all the receivables due from the same debtor (not all loan subaccounts).

Restructuring is performed for loans due from debtors with significant problems in business where financial indicators are substantially deteriorating. Upon restructuring:

- All balance sheet receivables due form the debtor or a greater portion thereof are replaced;
- Terms whereunder the relevant receivable was approved are essentially altered (which particularly entails extension of the period for repayment of principal or interest, decrease in interest rate applied or the amount receivable and other modifications of terms which are to facilitate the position of a debtor);
- Adoption of an adequate financial consolidation program is mandatory.

5.1.3. Concentration risk

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

Depending on general economic trends and individual industry sector trends, the Bank diversifies investments into the industry sectors that are resistant to the impact of adverse economic trends.

5.1.4. Credit Risk Hedges (Collateral)

For the purpose of protection against credit risk, in addition to regular monitoring of the customer business operations, the Bank also acquires security instruments (collaterals) to secure the collection of receivables and minimize credit risk. Depending on the assessment of the ability to settle contractual liabilities, the level of loan coverage is defined so that in case of the debtor default, the Bank could collect its receivables through collateral foreclosure. The quantity and type of collateral depends on the assessed credit risk.

As a standard type of loan security instrument, the Bank demands and receives from clients contractual authorizations for account withdrawals and bills of exchange, whereas, depending on the credit risk assessment and loan type, additional collaterals agreed upon include the following:

- for commercial loans – pledge over movable and immovable property (mortgages), deposits, banking, corporate and state-issued guarantees, sureties, pledge over securities, equity interests, receivables and livestock;
- for retail loans – mortgages, deposits, co-sureties and insurance of the National Corporation for Housing Loans.

For valuation of property or pledges assigned over movable assets, the bank hires certified appraisers in order to minimize potential risk of unrealistic valuation. Property, goods, equipment and other movables pledged must be insured by an insurance company acceptable to the Bank and insurance policies must be duly endorsed in favor of the Bank.

The Bank monitors the market value of collaterals and if necessary, it can demand additional collateral pursuant to the loan/deposit agreement executed.

It is the Bank's policy to ensure collection from collateral foreclosure and use the proceeds therefrom to reduce or repay debt.

5.2. LIQUIDITY RISK

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

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

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

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

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

The Bank's operations are reconciled daily with legally prescribed liquidity ratio and rigid/cash liquidity ratio. The legally prescribed minimum and maximum values for these ratios are defined for one working day, three consecutive working days and average for all working days within a month. During the third quartet 2014, 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	
	30.09.2014.	**31.12.2013.**	**30.09.2014.**	**31.12.2013.**
	3.74	3.45	3.31	3.08
Average for the period	3.44	2.73	3.17	2.43
Maximum for the period	3.74	3.89	3.46	3.39
Minimum for the period	3.26	1.69	2.83	1.50

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	30.09.2014.	31.12.2013.
GAP up to 1 month/Total assets	Max (10%)	8.55%	10.42%
Cumulative GAP up to 3 months / Total	Max (20%)	9.17%	6.75%

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:

	Limits	30.09.2014.	31.12.2013.
Relative GAP	Max 15%	0.38%	(3,66%)
Mismatch ratio	0.75 – 1.25	1.00	0.95

During 2014, 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:

	30.09.2014.	31.12.2013.
As at	10.86%	5.20%
Average for the period	7.40%	5.98%
Maximum for the period	10.40%	7.45%
Minimum for the period	4.82%	4.78%
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:

	30.09.2014.	31.12.2013.
Total currencv risk balance	201,347	720,703
Currency risk ratio	0.69%	2.12%
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. THE BANK'S INVESTMENT RISKS

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

5.6. EXPOSURE RISK

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

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

- The Bank's exposure to a single entity or group of related entities cannot exceed 25% of the Bank's equity;
- The Bank's exposure to a party that is related to the Bank cannot exceed 5% of the Bank's equity, while total exposure to the Bank's related parties cannot exceed 20% of the Bank's equity;
- The aggregate amount (sum) of the Bank's large exposures cannot exceed 400% of the Bank's equity.

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

5.7. COUNTRY RISK

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

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

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

For the purpose of adequate country risk control, the Bank defines exposure limits by countries or regions.

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

5.8. CAPITAL MANAGEMENT

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

The calculation of the amount of capital and capital adequacy 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 advances to 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 pursuant 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 indicators

	30.09.2014.	31.12.2013.
Core capital	29,447,746	45,134,001
Supplementary capital	5,507,761	4,961,842
Deductible items	(5,555,355)	(16,076,615)
Capital	**29,400,152**	**34,019,228**
Credit risk-weighted assets	156,145,495	161,509,806
Operational risk exposure	19,093,050	16,668,642
Foreign currency risk exposure	-	720.804
Capital adequacy ratio (minimum 12%)	**16.78%**	**19.02%**

During the third quarter of the year 2014, 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 controls and ensures maintenance of the level and structure of the internal capital, which adequately supports increase in loans and advances, 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

a) Regular General Meeting of Bank's Shareholders was held on 30.10.2014, when the following decisions were passed:

- Decision on Appointing Members of the board of Directors of the Bank; and
- Decision on Distribution of a Portion of Retained Earnings from Previous Years.

b) At its meeting held on 28.10.2014 the Board of Directors of the Bank adopted a decision on convening an extraordinary session of the General Meeting of the Bank's Shareholders on 19.11.2014 with a draft agenda:

- Dividend Policy of the Bank and
- Decision on XXVII Issue of Ordinary Shares by Public Offer with no Obligation to Publish a Prospectus, for the Purpose of Converting Preference Convertible Shares into Ordinary Shares of the Bank

c) New accounting regulations were published in RS Official Gazette No. 71/2014 to become effective as of 31.12.2014:

- Decision on the Chart of Accounts and the Contents of the Accounts in the Chart for Banks;
- Decision on Forms and the Contents of the Items in the Forms of Financial Statements for Banks;
- Decision on Gathering, Processing and Delivering data about the Balance on Accounts and the Structure of Accounts from the Chart (abbreviated SSKR).

The purpose of the changes in financial reporting regulations is to bring them into compliance with the IAS/IFRS and EU directives.

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 (РСД) on September 30th, 2014 and December 31st, 2013 for certain main currencies were as follows:

Currencies	Official NBS rate	
	2014	2013
USD	93.6202	83.1282
EUR	118.8509	114.6421
CHF	98.4680	93.5472

In Belgrade
On November 14th, 2014

Persons responsible for drafting the financial statements

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STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2014 to 30/09/2014 present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting and Audit, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the IAS and IFRS, as published by January 1, 2009, which were translated and published in the Official Gazette, in October 2010, pursuant to the decision by the Finance Minister.

Persons responsible for the preparation of financial statements

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

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