KOMERCIJALNA BANKA AD BEOGRAD

PUBLIC COMPANY'S SEMI-ANNUAL CONSOLIDATED REPORT FOR 2015

CONTENTS

Semi-annual Report on Operation for 2015

Of Komercijalna Banka a.d. Beograd Group

August 2015

CONTENT

The consolidated financial statements of the banking group are stated in thousands of dinars. The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

Functional currencies - EUR in the financial statements of Komercijalna Banka AD Budva and BAM for the financial statements of Komercijalna Banka ad Banja Luka, are translated into the reporting currency of the Parent Bank - the Dinar (RSD) based on the officially published rates in the Republic of Serbia.

Consolidated Income Statement and Consolidated Cash Flow Statement for the period have been reclassified using the average official exchange rate in the Republic of Serbia which was 120.9618 dinars for one euro and 61.8468 dinars for one BAM, while other consolidated financial statements (balance sheet, statement of changes in equity and statement of other comprehensive income) by using the closing exchange rate at the balance date of 120.6042 dinars for one euro or 61.6639 dinars for one BAM.

Transactions denominated in foreign currencies are translated into dinars at the average exchange rate determined at the interbank foreign exchange market, effective on the date of the transaction.

Assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated into dinars at the average exchange rate determined at the interbank foreign exchange market, which was in force at that date.

MAIN OPERATING INDICATORS OF THE GROUP

POSITION	VI 2015	2014	2013	2012	2011
In RSD thousands and percentages					
Profit before tax	703,357	4.792.801	4.400.642	4.572.662	3.952.066
Net interest income	7,467,583	14.436.051	14.128.460	10.910.317	9.853.368
Net fee income	2,509,223	4.983.940	4.829.281	4.554.466	4.423.399
PROFITABILITY PARAMETERS					
ROA	0.3%	1.2%	1.2%	1.4%	1.4%
ROE (to share capital)	3.5%	12.0%	11.0%	12.9%	14.0%
ROE (to total capital)	2.0%	6.9%	6.8%	8.2%	9.0%
Net interest margin to total assets	3.5%	3.5%	3.9%	3.5%	3.7%
Cost / income ratio	59.9%	62.7%	63.1%	65.1%	64.4%
Operating and other costs	5,980,920	12,170,559	11,961,385	11,040,394	10,039,654
Net losses on impairment of investments	3,008,602	2,821,458	3,359,720	1,946,369	1,488,299
Consolidated balance sheet assets	413,466,023	430,702,109	384,296,023	342,267,358	292,679,098
Loans and receivables	214,399,039	239,562,636	231,234,880	217,721,333	169,380,487
Deposits and other liabilities	328,368,275	347,341,972	306,302,650	269,884,506	219,922,916
Securities	107.627.386	99.470.437	59.528.893	42.516.713	27.150.573
CAPITAL	70,688,066	72,100,729	67,041,696	62,073,150	46,044,022
Capital adequacy	21,8%	18.7%	19.9%	22.4%	18.3%
Number of employees	3,165	3.178	3.233	3.254	3.282
Asset per employee	130.637	135.526	118.867	105.184	89.177
Asset per employee (In EUR thousands)	1.083	1.120	1.037	925	852

1. Summary Description of Business Activities and Organisational Structure of the Group

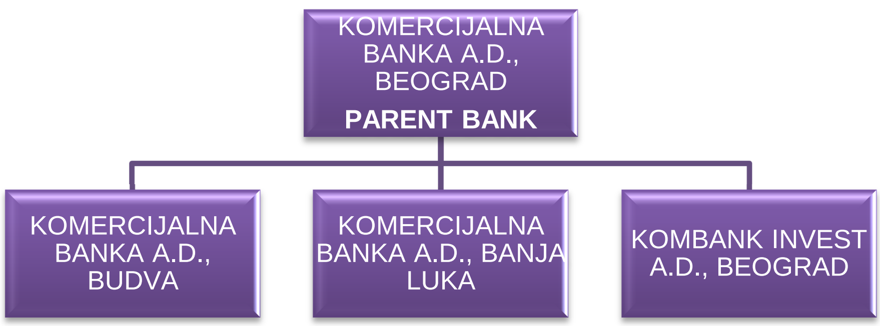
As its registered activities, the banking group performs the following:

- Deposit transactions (accepting and placing deposits);
- Credit transactions (lending and borrowing);
- Foreign exchange, foreign currency and exchange transactions;
- Payment transactions;
- Issuing payment cards;
- Transactions with securities (issuance of securities, custody bank operations etc.);
- Brokerage business;
- Issuance of guarantees, avals and other forms of sureties (guarantee business);
- Purchase, sale and collection of receivables (factoring, forfeiting etc.);
- Insurance agency transactions according to the prior approval of the National Bank of Serbia;
- Transactions authorised by the law;
- Other transactions which are essentially similar or related to the activities specified in the items 1) to 11) of this Paragraph, pursuant to the Agreement and Statute of the Bank;
- Organising and managing the investment funds.

The Parent Bank has been authorized to carry out payment transactions with foreign countries since 2003; for doing business of a broker-dealer company since 2005 and for custody bank operations since 2006.

Banking Group consists of three banks (parent and two subsidiary banks) and one investment fund Management Company.

Organisational Chart of Komercijalna Banka a.d. Beograd Group:



On 30.06.2015, the Group had a total of 3,165 employees, 13 less than in the previous year. The reduction was made in the parent bank (9), KB Budva (6), while KB Banja Luka recorded an increase in the number of employees (2). Number of employees in KB Invest remained unchanged.

KOMERCIJALNA BANKA A.D. BUDVA	KOMERCIJALNA BANKA A.D. BANJA LUKA
100% ownership of the Bank	99.998% ownership of the Bank

Komercijalna Banka a.d. Budva was founded in November 2002 as an affiliate of Komercijalna Banka a.d. Belgrade and was registered in the central register of the Commercial Court in Podgorica on March 6, 2003.

- 118 employees,
- 17 organisational units (F/A)

Komercijalna Banka a.d. Banja Luka was founded in September 2006 and was entered into the court register pursuant to the Decision of the Basic Court in Banja Luka on September 15, 2006.

- 146 employees,
- 17 organisational units (F/A)

KOMBANK INVEST A.D., BEOGRAD
100% ownership of the Bank

Investment Fund Management Company (IFM) **KomBank INVEST a.d. Beograd** is the company that has been registered in the Business Register of the Business Register Agency on February 5, 2008.

The Company was founded as a closes shareholders company that operated in accordance with the Law on Investment Funds, Rules of Investment Funds and Regulation on the Terms to Engage in IFM Activities.

At the end of the first half of 2015, the Company managed three investment funds, as follows,

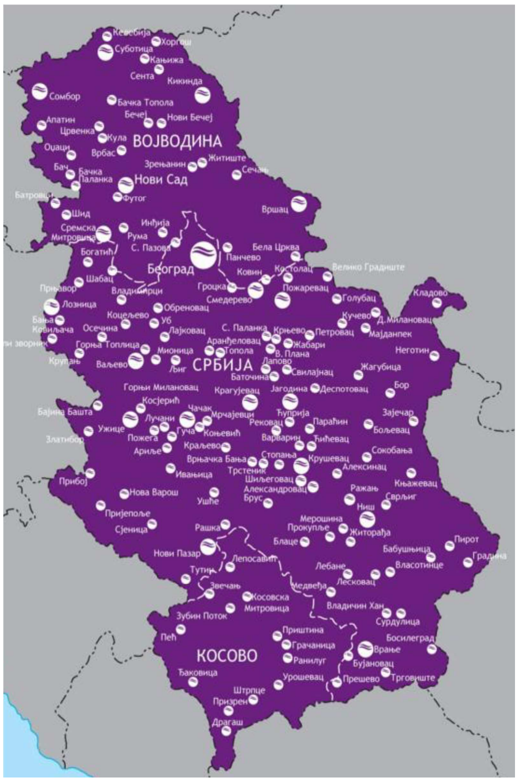
1. KomBank IN FOND, o.i.f. balanced fund
2. KomBank MONEY FUND, o.i.f preservation fund (cash fund)
3. KomBank FX FUND, o.i.f. preservation fund (cash fund)

Main information about seat of the banking group members:

	KOMERCIJALNA BANKA A.D., BUDVA	KOMERCIJALNA BANKA A.D., BANJA LUKA	DZU KomBank INVEST A.D., BEOGRAD
STREET	Podkošljun bb	Veselina Masleše 6	Kralja Petra 19
PHONE	00382-33-426-300	00387-51-244-700	011-330-8156

Parent Bank Komercijalna Banka a.d., Beograd:

	BRANCH	SEAT
1.	Kruševac	Trg fontana 1
2.	Niš	Episkopska 32
3.	Zrenjanin	Trg Slobode 5
4.	Čačak	Gradsko šetalište 10-14
5.	Kraljevo	Trg srpskih ratnika bb
6.	Novi Pazar	Njegoševa 1
7.	Novi Sad	Novosadskog sajma 2
8.	Užice	Petra Ćelovića 4
9.	Vranje	Stefana Prvovenčanog 58
10.	Valjevo	Gradski Trg bb
11.	Subotica	Korzo 10
12.	Šabac	Gospodar Jevremova 2
13.	Kragujevac	Save Kovačevića 1
14.	Smederevo	Karađorđeva 37
15.	Požarevac	Moše Pijade 2
16.	Jagodina	Kneginje Milice 10
17.	Loznica	Gimnazijska 1
18.	S. Mitrovica	Kralja Petra I 5-7
19.	Zaječar	Nikole Pašića 25
20.	Kikinda	Braće Tatić 7
21.	Sombor	Staparski Put 14
22.	Vršac	Trg Svetog Teodora Vršačkog 2
23.	Beograd	Svetogorska 42 - 44
24.	K. Mitrovica	Kneza Miloša 27



- 2.897 employees,
- 217 outlets that are organisationally linked to 24 branches on a regional principle

STREET	Svetog Save 14	Svetogorska 42-44	Makedonska 29
PHONE	+381 11- 30-80-100	+381-11-32-40-911	+381-11-33-39-001
FAX	3442-372	32-36-160	33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
INTERNET E - mail	*posta@ kombank.com*	*posta@ kombank.com*	*posta@ kombank.com*

2. Financial Position and Business Results of the Group

2.1. Macro-economic environment

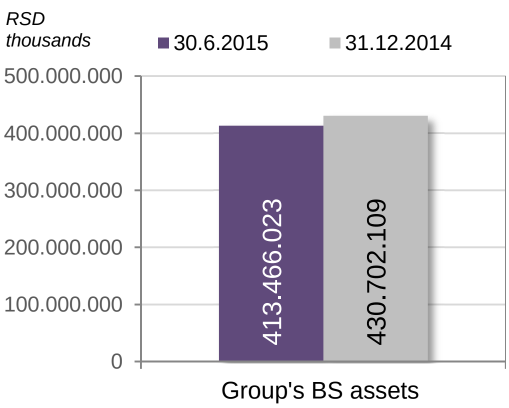
Macro-economic operating conditions of the Group according to the available data of competent institutions:

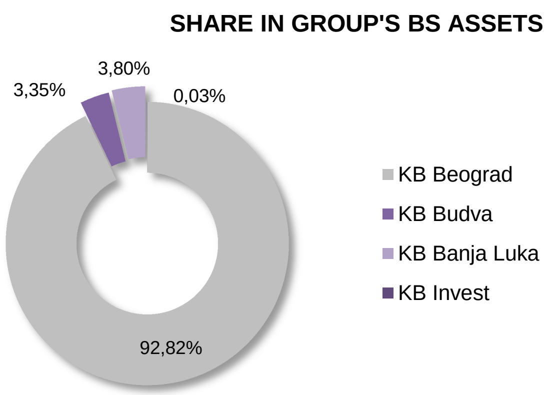
Macro-economic indicators	SERBIA	REPUBLIC OF SRPSKA	MONTENEGRO
Gross domestic product	3,994.0 billion RSD	8.8 billion BAM	3.6 billion EUR
GDP movements	Growth 0.9 %	Growth 0.4 %	Growth 3.5 %
Consumer price index	Growth 1.9%	Fall 0.9%	Growth 2.3%
Banking sector's assets	Growth 0.5%.	Fall 2.0 %	Growth 2.7%
Functional currency	RSD	BAM	EUR
Industrial production	Growth 4.8%	Growth 4.3 %	Growth 6.7 %
Foreign direct investments	453 million EUR.	826.1 million BAM (data available only for B&H)	111.8 million EUR
NPL of the banking sector	23.0%	14.4 %	16.2%
Unemployment rate	19.2%	25.2%	13.9%

2.2. Operation of Komercijalna Banka a.d. Beograd Group

RSD thousands

POSITION	30.06.2015	2014	2013	2012	2011
GROUP'S BALANCE SHEET ASSSETS	**413,466,023**	**430,702,109**	**384,296,023**	**342,267,358**	**292,679,098**
Komercijalna Banka a.d., Beograd	383,782,677	400,168,484	356,638,947	317,898,559	270,003,848
Komercijalna Banka a.d., Budva	13,853,972	13,939,442	12,197,246	10,422,000	9,456,653
Komercijalna Banka a.d., Banja Luka	15,707,592	16,484,378	15,354,014	13,844,837	13,119,415
KomBank INVEST a.d., Beograd	121,782	109,805	105,816	101,962	99,182

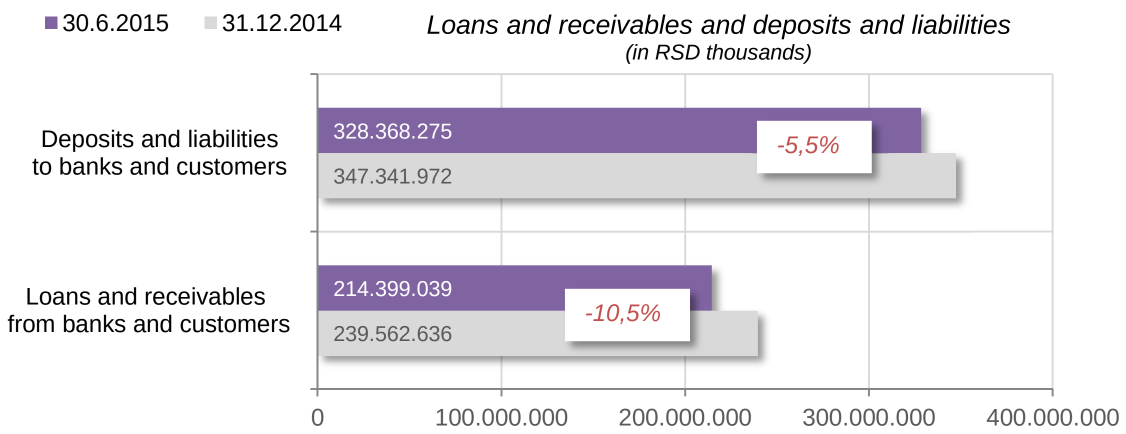


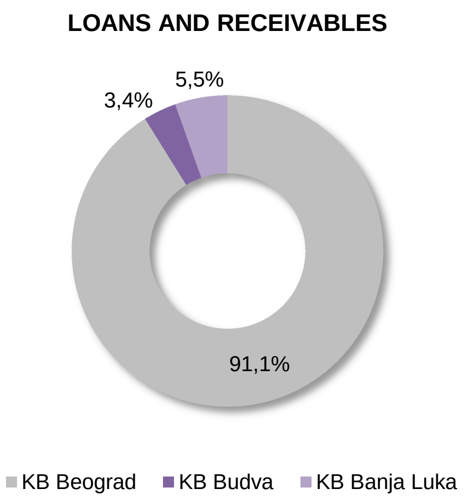


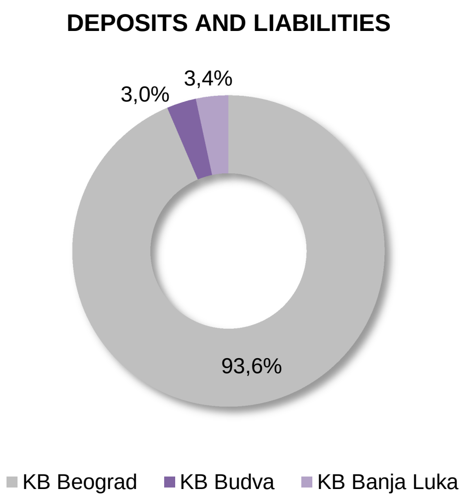
Balance sheet assets of the Group registered a decline of 4.0% in the first half of 2015. Share of the parent bank in the total assets of the Group was reduced compared to the beginning of the year, as well as share of KB Banja Luka, while the share of KB Budva increased. Share of KB Invest remained unchanged.

Overview of loans and advances and liabilities of banks and customers as at June 30, 2015 by members of the Group

Position	30.06.2015	2014	2013	2012	2011
RSD thousands					
LOANS AND RECEIVABLES FROM BANKS AND CUSTOMERS	**214,399,039**	239,562,636	231,234,880	217,721,333	169,380,487
Percept of growth/fall	**-10.50%**	3.60%			
Komercijalna Banka a.d., Beograd	**195,392,332**	219,502,491	212,141,510	199,465,741	155,719,207
Komercijalna Banka a.d., Budva	**7,332,301**	7,687,740	7,630,520	7,300,499	5,615,791
Komercijalna Banka a.d., Banja Luka	**11,674,406**	12,372,405	11,462,850	10,955,093	8,045,489
KomBank INVEST a.d., Beograd	**-**	-	-	-	-
DEPOSITS AND LIABILITIES TO BANKS AND CUSTOMERS	**328,368,275**	347,341,972	306,302,650	269,884,506	219,922,916
Percept of growth/fall	**-5.46%**	13.40%			
Komercijalna Banka a.d., Beograd	**307,318,078**	325,559,503	286,908,736	252,888,160	205,917,714
Komercijalna Banka a.d., Budva	**10,015,124**	9,987,090	8,134,122	6,963,203	4,932,913
Komercijalna Banka a.d., Banja Luka	**11,035,073**	11,795,379	11,259,792	10,033,143	9,072,289
KomBank INVEST a.d., Beograd	**-**	-	-	**-**	**-**







2.2.1. Consolidated balance sheet

Consolidated assets of the Group on 30.06.2015

RSD thousands

No	POSITION	30.06.2015	31.12.2014	INDICES	SHARE
1	2	3	4	5=(3:4)*100	30.06.2015
	ASSETS				
1.	Cash and funds held with Central Bank	72,254,832	72,633,528	99.5	17.5%
2.	Financial assets at fair value through income statement intended for trade	147,119	121,634	121.0	0.0%
3.	Financial assets available for sale	107,011,783	98,958,788	108.1	25.9%
4.	Financial assets held to maturity	468,484	390,015	120.1	0.1%
5.	Loans and receivables of banks and other financial institutions	23,681,399	35,733,988	66.3	5.7%
6.	Loans and receivables from customers	190,717,640	203,828,648	93.6	46.1%
7.	Non-tangible investments	340,887	451,205	75.6	0.1%
8.	Real-estate, plants and equipment	6,459,481	6,605,496	97.8	1.6%
9.	Investment property	2,942,787	2,711,213	108.5	0.7%
10.	Current tax assets	83,558	79,572	105.0	0.0%
11.	Deferred tax assets	129,347	5		0.0%
12.	Current assets intended for sale and assets from discontinued operations	143,620	137,802	104.2	0.0%
13.	Other assets	9,085,086	9,050,215	100.4	2.2%
	TOTAL ASSETS (1. to 13.)	**413,466,023**	**430,702,109**	96.0	**100.0%**

As of 30.06.2015, the balance sheet assets of the Group decreased compared to the beginning of the year to 17,236.1 million dinars, or 4.0%. Loans to customers were reduced by 13,111.0 million dinars, or 6.4%. On 30.06.2015, the total loans to customers amounted to 46.1% of total assets.

A significant increase in the reporting period was realized in the position financial assets available for sale in the amount of 8053.0 million dinars, an increase of 8.1% from the beginning of the year. The growth of investments was realized through investment in government securities.

Cash and balances with central banks decreased by 378.7 million dinars, which is a slight decrease compared to the end of the year of 0.5%.

Consolidated liabilities of the Group on 30.06.2015

RSD thousands

No	POSITION	30.06.2015	31.12.2014	INDICES	SHARE
1	2	3	4	5=(3:4)*100	30.06.2015
	LIABILITIES				
1.	Deposits and other liabilities to banks, other financial institutions and Central Bank	20,300,938	26,247,764	77.3	4.9%
2.	Deposits and other liabilities to other customers	308,067,337	321,094,208	95.9	74.5%
3.	Subordinated liabilities	6,021,978	6,036,680	99.8	1.5%
4.	Provisions	1,852,848	1,732,069	107.0	0.4%
5.	Current tax liabilities	0	14,726	0.0	0.0%
6.	Deferred tax liabilities	290,300	160,991	180.3	0.1%
7.	Other liabilities	6,244,556	3,314,942	188.4	1.5%
8.	**TOTAL LIABILITIES (1 to 7)**	**342,777,957**	**358,601,380**	95.6	**82.9%**
	CAPITAL				
9.	Share capital	40,034,550	40,034,550	100.0	9.7%
10.	Profit	710,733	6,925,972	10.3	0.2%
11.	Reserves	29,942,716	25,140,140	119.1	7.2%
12.	Non-controlling shares	67	67	100.0	0.0%
13.	**TOTAL CAPITAL (9 to 12)**	**70,688,066**	**72,100,729**	98.0	**17.1%**
14.	**TOTAL LIABILITIES**	**413,466,023**	**430,702,109**	96.0	**100.0%**

Total liabilities of the Group as of 30.06.2015 amounted to 342,778.0 million dinars and make up 82.9% of total liabilities. Total liabilities decreased compared to the beginning of the year to 15,823.4 million dinars (4.4%). The decrease in liabilities was mostly influenced by a fall in deposits and other liabilities to customers in the amount of 13,026.9 million dinars (4.1%) and deposits and other liabilities to banks in the amount of 5946.8 million (22.7%).

The highest growth was recorded by other liabilities to the amount of 2929.6 million dinars or 88.4% from the beginning of the financial year.

The total capital of 70,688.1 million dinars participates in total liabilities with 17.1%. Total equity decreased by 2.0% or 1412.7 million dinars compared to the beginning of the year. The reduction of capital is the result of the fall in profit in the amount of 6215.2 million dinars and the effects of growth of reserves in the amount of 4802.6 million dinars.

Consolidated balance sheet as at 30.06.2015 - members of the Banking Group

RSD thousands

	POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	Position / ASSETS					
1	Cash and funds held with Central Bank	68,102,145	1,531,990	2,620,697	0	72,254,832
2	Investments in securities	103,722,956	2,692,582	1,091,180	120,668	107,627,386
3	Loans and receivables from banks and other fin.instit.	21,703,585	1,399,612	578,202	0	23,681,399
4	Loans and receivables from customers	173,688,747	5,932,689	11,096,204	0	190,717,640
5	Non-tangible investments	300,596	21,692	18,578	21	340,887
6	Real-estate, plants and equipment	6,200,408	203,421	55,600	52	6,459,481
7	Investment property	2,814,408	0	128,379	0	2,942,787
8	Other assets	7,249,832	2,071,986	118,752	1,041	9,441,611
9	**TOTAL ASSETS (1 to 8)**	**383,782,677**	**13,853,972**	**15,707,592**	**121,782**	**413,466,023**
	Position / LIABILITIES					
10	Deposits and other liabilities to banks and other financial institutions	18,655,093	319,757	1,326,088	0	20,300,938
11	Deposits and other liabilities to other customers	288,662,985	9,695,367	9,708,985	0	308,067,337
12	Subordinated liabilities	6,021,978	0	0	0	6,021,978
13	Provisions	1,781,325	43,039	27,901	583	1,852,848
14	Other liabilities	6,388,200	68,508	76,833	1,315	6,534,856
15	**TOTAL LIABILITIES (10 to 14)**	**321,509,581**	**10,126,671**	**11,139,807**	**1,898**	**342,777,957**
16	Capital and reserves	69,145,907	1,240,649	321,614	-20,104	70,688,066
17	**TOTAL LIABILITIES (15+16)**	**390,655,488**	**11,367,320**	**11,461,421**	**-18,206**	**413,466,023**

I	Assets per segments	**383,782,677**	**13,853,972**	**15,707,592**	**121.782**	**413.466.023**
-	***Structure of adjusted positions***					
-	Consolidated cash	0	-175,167	-46,264	-19	-221,450
-	Consolidated deposits	-4,014	0	-13,568	-83	-17,665
-	Consolidated loans to customers	-603,021	0	0	0	-603,021
-	Consolidated interest receivables	-3,210	0	0	0	-3,210
-	Consolidated accrued interest and other	-90	0	0	0	-90
-	Consolidated shares	-5,480,888	0	0	0	-5,480,888
II	**Assets per segments**	**389,873,900**	**14,029,139**	**15,767,424**	**121,884**	**419,792,347**
I	**Liabilities per segments**	**390,655,488**	**11,367,320**	**11,461,421**	**-18,206**	**413,466,023**
-	***Structure of adjusted positions***					
-	Consolidated deposits	-235,101	-4,014	0	0	-239,115
-	Consolidated borrowings	0	0	-603,021	0	-603,021
-	Consolidated interest liabilities and other	0	0	-3,210	-90	-3,300
-	Consolidated capital	1,661,232	-3,302,348	-3,699,772	-140,000	-5,480,888
-	Intra-group dividends	-644,543	644,543	0	0	0
II	**Liabilities per segments**	**389,873,900**	**14,029,139**	**15,767,424**	**121,884**	**419,792,347**
III	Balance sheet sum in original currency	389,873,900 K/Din	116,324 K/EUR	255,699 K/BAM	121,884 K/din	

2.2.2. Consolidated Income Statement

The process of consolidation demands the elimination of individual income statements of all positions that come from mutual business transactions: interest, fees, commissions and other income / expenses.

For the period from 1 January to 30 June 2015, Komercijalna Banka's banking group achieved profit to the amount of 703.4 million dinars.

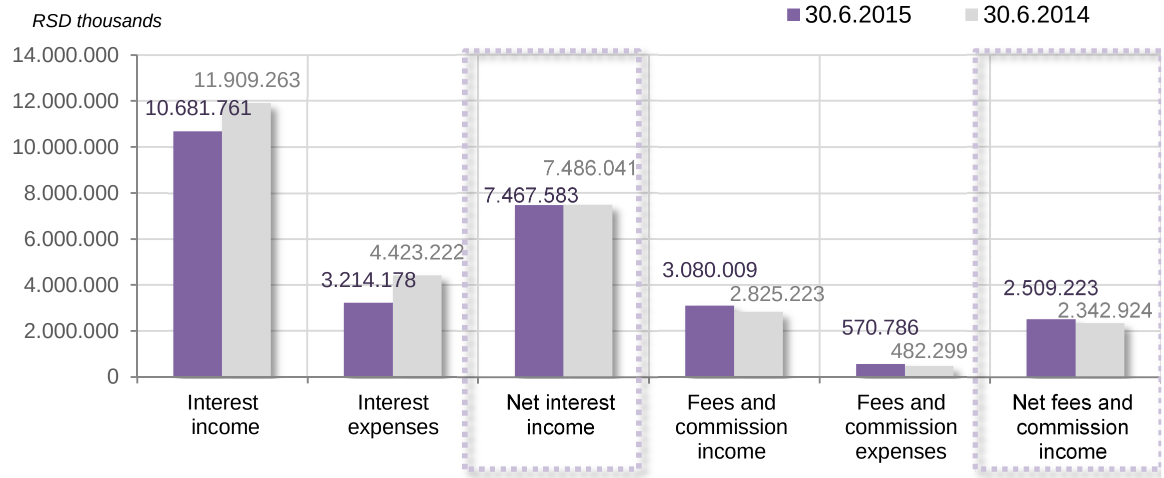
Consolidated Income Statement for the period January 1 to June 30, 2015

RSD thousands

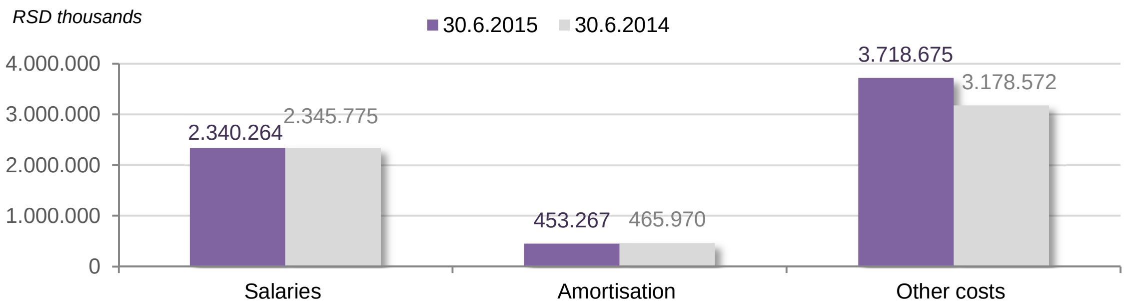
No.	POSITION	30.06.2015	30.06.2014	INDICES (3:4)*100
1	2	3	4	5
	OPEX INCOME AND EXPENSES			
1.1.	Interest income	10,681,761	11,909,263	89.7
1.2.	Interest expenses	3,214,178	4,423,222	72.7
1.	**Net interest income**	**7,467,583**	**7,486,041**	99.8
2.1.	Fees and commission income	3,080,009	2,825,223	109.0
2.2.	Fees and commission expenses	570,786	482,299	118.3
2.	**Net fees and commission income**	**2,509,223**	**2,342,924**	107.1
3.	Net income from financial assets held for trading	2,667	3,351	79.6
4.	Net gains on financial assets available for sale	20,613	8,491	242.8
5.	Net income / expenses from exchange rate differences and the effects of foreign currency clause	11,046	-78,137	-14.1
6.	Other operating income	213,033	166,719	127.8
7.	Net losses on impairment of funds and credit risk bearing off balance sheet items	-3,008,602	-1,393,137	216.0
8.	**TOTAL NET OPERATING INCOME**	**7,215,563**	**8,536,252**	84.5
9.	Wages, salaries and other personnel expenses	2,340,264	2,345,775	99.8
10.	Depreciation expense	453,267	465,970	97.3
11.	Other expenses	3,718,675	3,178,572	117.0
12.	**PROFIT BEFORE TAX (8-9-10-11)**	**703,357**	**2,545,935**	27.6
13.	Income tax	0	0	0
14.	**PROFIT AFTER TAX (12-13)**	**703,357**	**2,545,935**	27.6

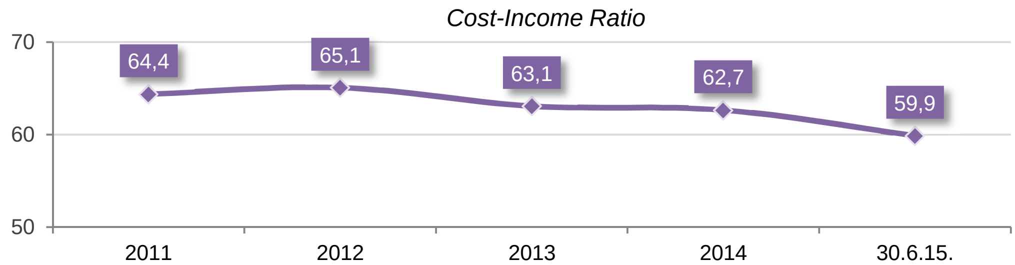
In conditions of reduced demand for loans and the tendency of decrease in interest rates, interest income of the Group recorded a decline compared to the previous year, accompanied by a simultaneous reduction in interest expenses, which, in the net amount, is a negligible change of 18.5 million dinars, or 0.2% compared to the same period last year.

Net fee income recorded an increase in the amount of 166.3 million dinars (7.1%) due to the increase in income from fees and commissions to 254.8 million dinars (9.0%), and a slightly lower growth of fees expenses amounting 88.5 million dinars (18.6%).

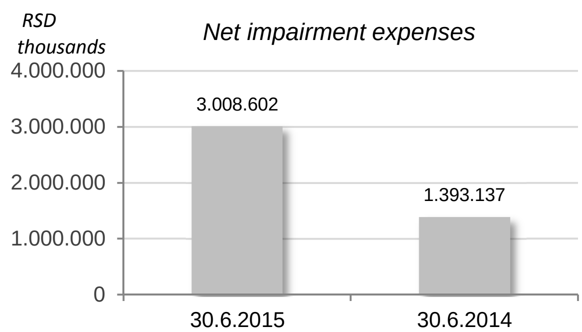


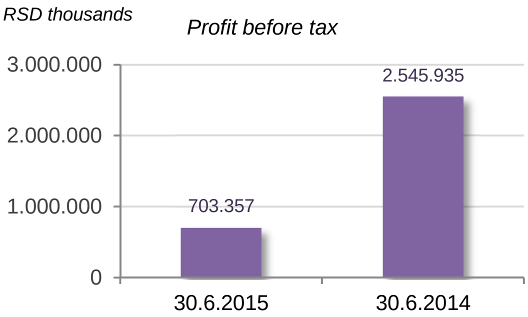
Operating expenses increased by 521.9 million dinars (8.7%). In the same period the costs of salaries and amortization declined compared to the previous year. Other expenses increased by 540.1 million dinars, an increase of 17.0%. The growth in other expenses was influenced by the adjustment of interest and fees from previous years and deposit insurance premium.





Net losses on impairment of funds and credit risk bearing off balance sheet items increased by 1,615.5 million dinars (116.0%) compared to the same period last year with the aim of hedging.





Operating profit decreased by 1,842.6 million dinars (72.4%) compared to the previous six months. Decrease in profit is the result of impairment of loans and credit risk bearing off balance sheet items in the first six months of the current year.

Consolidated Income Statement by members of the Group for period January 1 to June 30, 2015

RSD thousands

	POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
1	Interest income	9,920,973	347,341	407,532	5,915	10,681,761
2	Interest expenses	3,022,693	93,148	98,337	0	3,214,178
3	**Net interest income/expenses (1-2)**	**6,898,280**	**254,193**	**309,195**	**5,915**	**7,467,583**
4	Fee income	2,894,123	71,716	111,069	3,101	3,080,009
5	Fee expenses	523,216	16,072	31,342	156	570,786
6	**Net fee income / expenses (4-5)**	**2,370,907**	**55,644**	**79,727**	**2,945**	**2,509,223**
7	Net result of investments in securities	13,892	0	8,243	1,145	23,280
8	Net result of loans depreciation	-2,918,607	-42,973	-47,022	0	-3,008,602
9	Other result	230,349	4,178	-10,602	154	224,079
I	**TOTAL NET OPERATING INCOME (3+6+7+8+9)**	**6,594,821**	**271,042**	**339,541**	**10,159**	**7,215,563**
10	Costs of gross salaries	2,058,986	135,124	140,657	5,497	2,340,264
11	Other operating expenses	3,837,537	162,538	169,065	2,802	4,171,942
12	**Operating expenses (10+11)**	**5,896,523**	**297,662**	**309,722**	**8,299**	**6,512,206**
II	**RESULT BY SEGMENTS (3+6+7+8+9-12)**	**698,298**	**-26,620**	**29,819**	**1,860**	**703,357**
II	**Result by segments**	**698,298**	**-26,620**	**29,819**	**1,860**	**703,357**
	Structure of adjusted position					
-	Consolidated interest net	-4,808	0	4,817	-9	0
-	Consolidated fees net	-1,165	55	833	277	0
-	Other	0	0	-2	2	0
-	Translation differences on mutual relations	7,961	-1,752	-9,682	0	-3,473
II	**Result by segments**	**696,310**	**-24,923**	**33,853**	**1,590**	**706,830**
III	Result in original currency (000)	696.310 K/Din	-206 K/EUR	547 K/BAM	1.590 K/Din	

3. Investments aimed to protect the environment

Adopting policies and procedures on environmental and social protection at the level of the banking group, the Group has defined standards for identifying and managing environmental and social environment in the process of approving and monitoring loans. Internal acts defined the procedure for addressing and responding to complaints arising from direct or indirect impact of business activities on the environment and society.

Contracting credit lines for financing investments to increase energy efficiency and development of renewable energy, loans were approved that provide energy from green sources, leading to a reduction of carbon dioxide emissions.

Through categorization of loans depending on the level of risk to the environment and society, the Group estimates to what percentage activities that may have harmful consequences for the environment are financed. Also, the Group continuously monitors the extraordinary which occur to its customers and which may have adverse impact on the environment, health, safety or the community as a whole, and regularly informs thereof the management bodies and shareholders of the Bank.

In order to protect the environment and minimize the possibilities for the occurrence of events that may have a materially adverse impact on the environment, health, safety or the community as a whole, subsidiary banks do not fund clients whose main activity is connected with the production or trade in weapons and munitions, alcoholic beverages, radioactive materials and other technologies that can have adverse impact on the environment.

4. Important events after business year end

Significant events occurred after 30.06.2015 are disclosed in the Notes to the Consolidated Financial Statements - Note No. 12.

5. Planned future development

Due to difficult macroeconomic conditions the Group continues to operate with a conservative attitude towards risk. The focus of the Group remains on achieving long-term competitiveness.

Business policies have not been changed in the financial year, neither at the level of the Group nor at the level of individual banks, members of the Group.

The Group adopts Strategy and Business Plan at the level of its members depending on local business conditions.

Operating strategies are adopted at the level of members of the Group for the period of next three years. The Strategy defines the mission, strategic goals and operating principles of each member of the Group with a focus on stable and sustainable business, which will be implemented through:

- Maintaining interest margin;
- Raising the efficiency and
- Maintaining the quality of the portfolio versus growth.

Mission and long-term commitments of the Group in the coming period remain:

- Universal Bank with an equal focus on the corporate and retail sector;
- Orientation to local markets.

The strategic objectives can be defined as:

- Management of all the risks inherent to the Group's operation;
- Sustainable profitability, thus creating the conditions for growth in the post-crisis period.

Prevailing principles when setting objectives are the following:

- Stability and long-term business sustainability and shareholder value;
- Caution;
- Conservative approach.

Planned business performances by members:

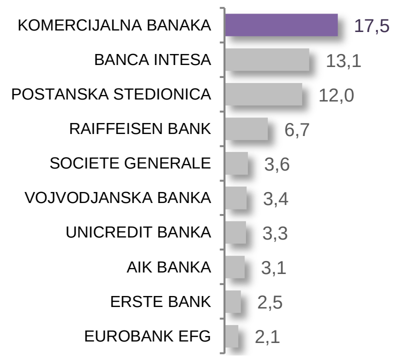
GROUP MEMBERS	KB BEOGRAD			KB BANJA LUKA			KB BUDVA		
Plan	2015	2016	2017	2015	2016	2017	2015	2016	2017
Asset growth	3.6%	5.2%	5.5%	5.5%	4.3%	3.4%	2.2%	3.9%	3.9%
ROE to share capital	11.9%	13.7%	15.4%	3.3%	4.1%	4.6%	6.3%	7.3%	8.6%
ROE to total capital	6.8%	7.5%	8.1%	3.0%	3.6%	4.0%	5.1%	5.7%	6.3%
ROA	1.2%	1.3%	1.4%	0.7%	0.9%	0.9%	1.5%	1.7%	1.9%
CIR	58.8%	55.5%	54.7%	74.6%	70.0%	66.3%	67.5%	63.8%	61.0%
Interest margin to total assets	3.4%	3.5%	3.6%	4.1%	4.2%	4.3%	4.7%	4.9%	5.0%

6. Research and Development Activities

Bank Group continuously monitors activity on the market of banking products, and in doing so, it uses the available personnel and hires specialized agencies for Public Opinion Research.

Market research: *IPSOS Strategic Marketing, Banking omnibus, May 2015*

Agencies provide information regarding customer satisfaction, and according to analyses the Group occupies a leading position by brand recognition and quality of service.



The results of the research assist in making business decisions, particularly important with regards to the development of new and improvement and modification of existing products and services.

In the continuous process of monitoring the market signals and needs of users and potential clients, business divisions of the Parent Bank have, in the previous period, offered customers new and / or improved certain types of retail and micro-customers' loans, and developed a whole range of services in the field of electronic banking, debit and credit cards. The results of research and development have been implemented in the Strategy and Business Plan of Parent Bank.

7. Own shares repurchase

Group members did not repurchase any own shared in the past, and they have no intention of repurchasing own shares in the coming period either.

8. Subsidiaries

Subsidiaries: Komercijalna Banka a.d. Budva and Komercijalna Banka a.d. Banja Luka keep business records and prepare financial statements in accordance with accounting regulations of the Republic of Montenegro and Bosnia and Herzegovina.

For the purpose of preparing consolidated financial statements, the individual financial statements of subsidiary banks and the Company are adapted to presentation of the financial statements on the basis of:

- Accounting regulations of the Republic of Serbia,
- Internal regulations of the Parent Bank and
- Relevant IAS and IFRS.

Functional currencies, EUR in the financial statements of Komercijalna Banka a.d. Budva and BAM for the financial statements of Komercijalna Banka a.d. Banja Luka, are translated into the presentation currency, which is the functional currency of the Parent Bank - the Dinar (RSD), based on the officially published rates in the Republic of Serbia, as follows:

- Income Statement and Cash Flow Statement by applying the average exchange rate in the Republic of Serbia and
- Other financial statements (balance sheet, statement of other comprehensive income and statement of changes in equity) using the closing exchange rate at the balance.

Individual balance sheets of the Group members before consolidation, as of June 30, 2015

RSD thousands

POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Cash and funds held with the Central Bank	68,102,145	1,707,157	2,666,961	20
Investments in securities	103,722,956	2,692,582	1,091,180	120,668
Loans and receivables from banks and other fin.instit.	22,313,830	1,399,612	591,770	83
Loans and receivables from customers	173,688,747	5,932,689	11,096,204	0
Investments in subsidiaries	5,480,888	0	0	0
Non-tangible investments	300,596	21,692	18,577	21
Real-estate, plants and equipment	6,200,408	203,421	55,600	52
Investment property	2,814,408	0	128,379	0
Other assets	7,249,922	2,071,985	118,752	1,041
TOTAL ASSETS	389,873,900	14,029,139	15,767,424	121,884
Deposits and other liabilities to banks and other financial institutions	18,890,194	323,772	1,932,319	0
Deposits and other liabilities to other customers	288,662,985	9,695,367	9,708,985	0
Subordinated liabilities	6,021,978	0	0	0
Provisions	1,781,325	43,039	27,901	583
Other liabilities	6,388,200	68,508	76,832	1,406
TOTAL LIABILITIES	**321,744,682**	**10,130,686**	**11,746,038**	**1,989**
Capital and reserves	68,129,218	3,898,454	4,021,386	119,896
TOTAL LIABILITIES	389,873,900	14,029,139	15,767,424	121,884

The percentage of total consolidated balance sheet items is not materially significant, and amounts to 1.5% of the total cumulative balance sheet sum.

The following was fully consolidated in the consolidation procedure:

- Amount of the Parent Bank's share in the capital of members of the Group (5,480.9 million dinars),
- Internal receivables and liabilities between the members of the Group (845.4 million dinars),
- Internal income and expenses between all members of the Group (net negative effect of 3.5 million dinars),
- Unrealized internal gains (not realized) and
- Unrealized internal losses (not realized).

Impairment of loans (impairments) of the Group members, as well as provisions for contingent liabilities, are recognized in accordance with IAS 39 and IAS 37 on the basis of the adopted internal methodology of the Group.

Consolidation of the balance sheet

ASSETS *RSD thousands*

Members of Komercijalna Banka banking group	Total assets	AMUNT of asset consolidation	Consolidated assets	% of share
1	2	3	4=2+3	5
Komercijalna Banka a.d., Beograd	389,873,900	-6,091,223	383,782,677	92.82%
Komercijalna Banka a.d., Budva	14,029,139	-175,167	13,853,972	3.35%
Komercijalna Banka a.d., Banja Luka	15,767,424	-59,832	15,707,592	3.80%
KomBank INVEST a.d., Beograd	121,884	-102	121,782	0.03%
TOTAL	**419,792,347**	**-6,326,324**	**413,466,023**	**100%**

LIABILITIES

Members of Komercijalna Banka banking group	Total liabilities	AMOUNT of liabilities consolidation	Consolidated liabilities	% of share
1	2	3	4=2+3	5
Komercijalna Banka a.d., Beograd	389,873,900	781,588	390,655,488	94.48%
Komercijalna Banka a.d., Budva	14,029,139	-2,661,819	11,367,320	2.75%
Komercijalna Banka a.d., Banja Luka	15,767,424	-4,306,003	11,461,421	2.77%
KomBank INVEST a.d., Beograd	121,884	-140,090	-18,206	0.00%
TOTAL	**419,792,347**	**-6,326,324**	**413,466,023**	**100%**

The share of subsidiaries in the total potential of the Group is not significant given that it totalled 7.2% (in 2014 amounted to 7.1%) of consolidated assets of the Group. Share in liabilities was somewhat lower and amounted to 5.5% (2014 5.5%), given that the consolidation eliminates equity investments of the parent bank in banking group members. As in previous years, the position of the Parent Bank in the Group's assets structure remained dominant, with a share of 92.8%, or 94.5% in liabilities.

Individual income statements before consolidation covering the period from January 1 to June 30 2015.

RSD thousands

POSITION	KB Beograd	KB Budva	KB Banja Luka	KomBank INVEST
Interest income	9.925.789	347.341	407.532	5.925
Interest expenses	3.022.702	93.148	103.153	0
Net interest income	**6.903.087**	**254.193**	**304.379**	**5.925**
Fees and commission income	2.896.747	72.671	111.571	3.102
Fees and commission expenses	524.674	17.083	32.676	434
Net fees and commission income	**2.372.073**	**55.588**	**78.895**	**2.668**
Net gain / loss on sale of securities	13.892	0	8.243	1.144
Net gains / losses on FX differentials and FX clause	13.219	3.992	-2.706	14
Other operating income	209.169	1.937	1.786	140
Net income / expenses from impairments and provisions	-2.918.607	-42.973	-47.022	0
Operating and other business income	5.896.523	297.660	309.722	8.301
PROFIT BEFORE TAX	**696.310**	**-24.923**	**33.853**	**1.590**
Income tax	0	0	0	0
PROFIT	**696.310**	**-24.923**	**33.853**	**1.590**

Consolidation of income statement *RSD thousands*

Aggregate unconsolidated profit in the Income Statement	Amount of consolidation		Consolidated profit
	Net income	Net expenses	
706,830	9,455	5,982	**703,357**

9. Financial Instruments of Importance for Assessment of Financial Position

In the first half of 2015 the following financial instruments were important for the assessment of Komercijalna Banka a.d. Beograd Group's financial position:

- Left side:
  - Loans and receivables from customers;
  - Loans and receivables from banks and other financial organisations;
  - Financial assets available for sale and
  - Cash and funds held with the Central Bank

- Right side:
  - Deposits and other liabilities to other customers;
  - Deposits and other liabilities to banks, other financial institutions and central bank;
  - Subordinated liabilities and
  - Capital.

Loans and advances to customers, banks and other financial institutions as at 30.06.2015 amounted to 214,399.0 million dinars and make up 51.9% of total assets of the Group, while at the end of 2014, loans amounted to 239,562.6 million dinars and had 55.6% share in total assets.

In the first six months of 2015, loans and advances decreased by 25,163.6 million dinars or 10.5%. Bearing in mind that for a longer period loans and investments have made up more than 50% of the total assets, the Group has developed risk management system in the previous period, with particular emphasis on credit risk. As a result of these efforts, the Group now has a high quality loan portfolio, which has been provided with the appropriate amount of impairments and reserves formed from profit.

In the first half of 2015, financial assets available for sale amounted to 107,011.8 million dinars (25.9% of total assets), and in relation to the situation at the end of 2014 (98,958.8 million dinars, 23.0% of total assets) increased by 8,053.0 million dinars or 8.1%. These funds primarily relate to investments in short-term and long-term securities of the Republic of Serbia.

As of June 30, 2015, cash and balances with central banks, risk-free assets in terms of credit risk amounted to 72,254.8 million dinars and decreased by 0.5% or 378.7 million dinars in relation to the beginning of the year. In the structure of this position the dominant amount refers to the funds held on the drawing account and funds set aside with the central banks in the form of required reserves.

Bearing in mind the structure of assets, it can be concluded that the assets sensitive to credit risk are maintained at an optimum level at a reasonable policy of underwriting.

Deposits and other liabilities to other customers (including the assets taken in the form of credit lines) amounted to 308,067.3 million dinars as at June 30, 2015 and have 74.5% share in the total liabilities. Compared to the beginning of the year deposits and other liabilities to other customers decreased by 13026.9 million dinars or 4.1%. Deposit potential of the Group consists predominantly of retail foreign currency deposits, with great diversification of deposits, large number of deposits in small amounts.

Deposits and other liabilities to banks, other financial institutions and the central bank on June 30, 2015 amounted to 20,300.9 million and made up 4.9% of total liabilities.

In order to create a basis for more favourable credit rating, as well as the strengthening of the capital base of the Group, the Parent Bank, Komercijalna Banka a.d. Beograd, has provided part of the funds in the form of subordinated debt by the IFC. On June 30, 2015, subordinated liabilities amounted to 6,022.0 million dinars and make up 1.5% of liabilities.

The total equity of Komercijalna Banka Group on 30 June 2015 amounted to 70,688.1 million dinars and represents 17.1% of total liabilities. Total capital decreased by 1,412.7 million dinars or 2.0% in the fiscal year.

Based on the above it can be concluded that the Komercijalna Banka a.d. Beograd Group has so far provided various funding sources and that there is no high concentration of deposits.

10. Risk Management

The Group has recognized the risk management process as a key element of business management, given that exposure to risks arises from all transactions, as an inseparable part of banking business, which is operated through the identification, measurement, mitigation, monitoring and control and reporting, setting of risk limits, as well as reporting in accordance with the strategies and policies.

The Group has established a comprehensive and reliable risk management system which includes strategies, policies and procedures, risk management, appropriate organizational structure, effective and efficient management system for all its risks, adequate system of internal controls, appropriate information system and appropriate process of internal assessment of capital adequacy.

Through strategy of risk management and capital management strategy, the Group has set the following objectives within the system of risk management: minimizing the negative effects on the financial result and equity with respect to the defined framework of acceptable risk levels, maintaining the required level of capital adequacy, the development activities in accordance with business opportunities and development of markets, in order to achieve competitive advantages.

Detailed reports and data on risk management are disclosed in the Notes to the Consolidated Financial Statements - Note number 4.

Exposure to Credit Risk

Credit risk is the possibility of negative effects on the financial result and equity due to failure to fulfil obligations of the debtor to the members of the Group. Credit risk is conditioned by the debtor's creditworthiness, his regularity in settling liabilities to the Bank, as well as the quality of collateral.

Acceptable level of credit risk exposure of the Group is in accordance with the defined risk management strategy and depends on the structure of the portfolio of the Group, which serves as the base to allow limiting the negative effects on financial result and minimizing capital requirements for credit risk, settlement risk and delivery and counterparty risk, in to maintain capital adequacy ratio at an acceptable level. Banks, members of the Group granted loans to customers (both retail and corporate) that are estimated to be creditworthy. On the other hand, the Group does not invest in high-risk investments such as investments in highly profitable projects bearing high risk, investment funds of the high-risk projects, etc.

Exposure to Liquidity Risk

Liquidity risk represents the possibility of occurrence of adverse events which may adversely affect the financial result and equity of the Group. Liquidity risk arises from the difficulty of the Group in settling the overdue liabilities in the event of a shortage of liquidity reserves and the inability to cover unexpected outflows and other liabilities.

Banks, members of the Group, in their business activities respect the fundamental principles of liquidity, maintaining sufficient level of funds to cover liabilities incurred in the short term, and respect the principle of solvency by establishing the optimal structure of its own and borrowed funds and the establishment of sufficient liquidity reserves that does not threaten the achievement of the planned return on capital.

Liquidity risk arises from the inability of the Group to meet its payment obligations. Liquidity risk may occur in the form of funding sources and market liquidity risk. The problem of liquidity in terms of funding sources refers to the structure of liabilities, or financial commitments, and is expressed through a potentially significant share of unstable, short-term sources or their concentration. On the other hand, liquidity risk can also be identified through a deficit of liquidity reserves and difficulty or impossibility of obtaining liquid assets at reasonable market prices.

Exposure to Interest Rate Risk

Interest rate risk is the risk of negative effects on financial result and capital from positions in the banking book due to unfavourable changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities. Interest rate risk management aims to maintain an acceptable level of exposure to interest rate risk in terms of impact on the financial results and economic value of equity, conducting adequate policy of maturity match of repricing and matching sources to investments by type of interest rate and maturity.

Exposure to FX Risk

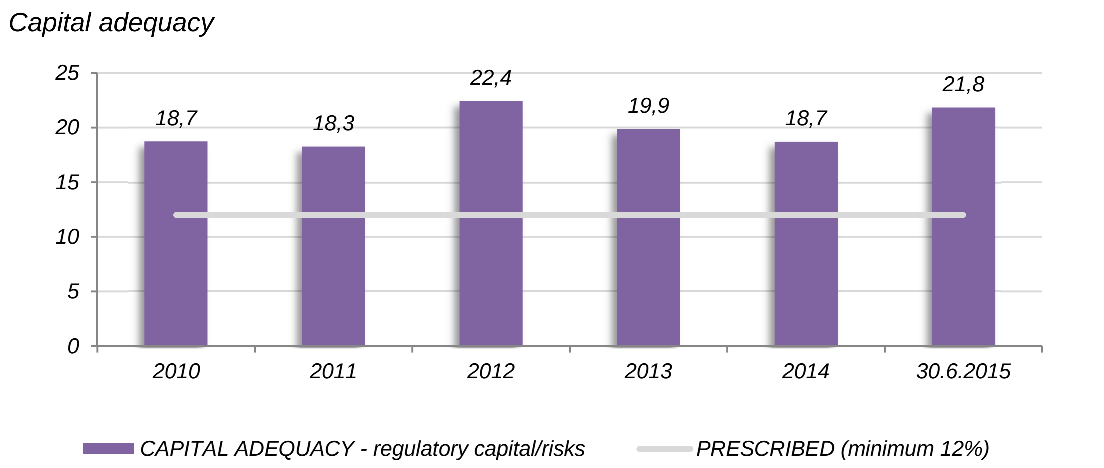
Banks, Group members, are exposed to foreign exchange risk, which is manifested through the possibility of adverse effects on the financial result and equity due to fluctuations between currencies, changes in the value of the domestic currency in relation to foreign currencies or changes in the value of gold and other precious metals.

In order to minimize exposure to foreign exchange risk the Group diversifies the currency structure of its portfolio and currency structure of liabilities, adjusts open positions in individual currencies, while respecting the principles of funding maturity transformation. The Group is obliged to adjust the volume of its business with the parameters of the Law on Banks. On June 30, 2015, all ratios were within their prescribed parameters.

Regulatory Requirements for the Group

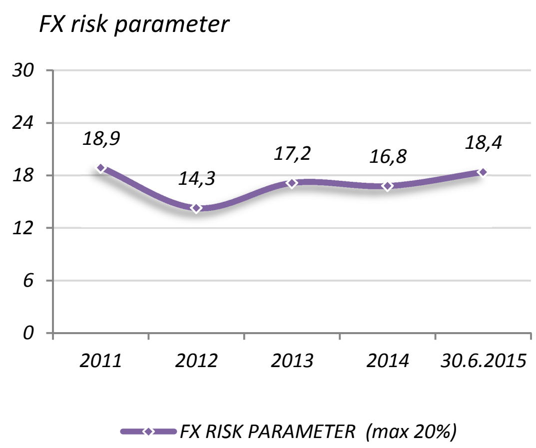
Capital adequacy parameter is a basic indicator of the Group's business, whose value is impacted as follows:

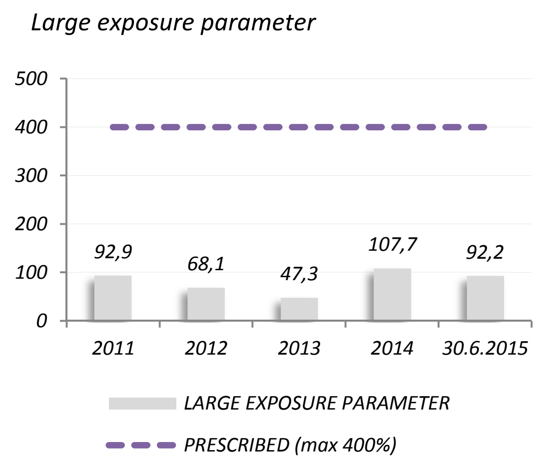
- Level of regulatory capital,
- Total assets weighted by credit risk,
- „Net open FX position“ and
- Exposure to operational risk.

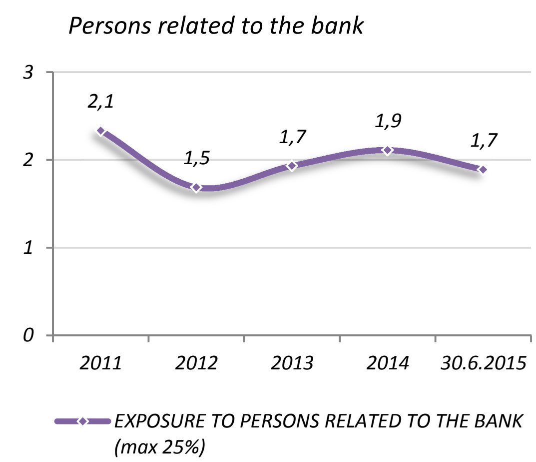


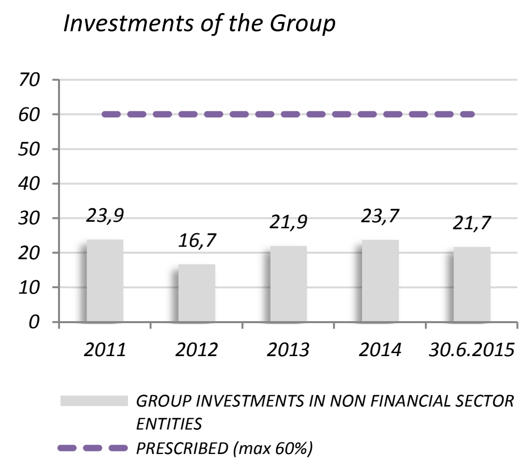
According to the Law on Banks, „the following shall be established for the banking group on the consolidated basis:

- Capital adequacy indicator,
- Large exposure,
- Investments in other business entities and fixed assets,
- „Open net FX position. "









11. Rules of Corporate Governance

Corporate governance rules are based on the relevant legislation (Law on Banks and the Law on Companies). Members of the Group in its operations apply the Code of Corporate Governance of the Serbian Chamber of Commerce, which was adopted by the Assembly of the Serbian Chamber of Commerce.

Competences and powers of all bodies of the Group members are based on appropriate legislation and defined in internal regulations. The rules of corporate governance are implemented through internal documents and the application thereof has no deviations.

Code of Corporate Governance established principles of corporate practice by which the holders of corporate governance abide and behave in business. The aim of the Code is the introduction of good business practices and the establishment of high standards of corporate governance, which should ensure the strengthening of trust of shareholders, investors, customers and other stakeholders. Good practice of corporate governance basically allows the consistency of the control system, protect the interests of shareholders, the timely submission of all relevant information on the operations and complete transparency through public access to financial reports of companies.

In Belgrade,

On August 19, 2015

KOMERCIJALNA BANKA AD BEOGRAD

Vasimir Ismailović Director of the Controlling Division	КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД БЕОГРАД	**Savo Petrović** Executive Director for Finance and Accounting

BALANCE SHEET - CONSOLIDATED

as at 30.06.2015.

in RSD thousand

ITEM	ADP code	Amount	
		30.06. Current year	31.12. Previous year
1	2	3	4
ASSETS			
Cash and assets held with the central bank	0001	72 254 832	72 633 528
Pledged financial assets	0002	-	-
Financial assets recognised at fair value through income statement and held for trading	0003	147 119	121 634
Financial assets initially recognised at fair value through income statement	0004	-	-
Financial assets available for sale	0005	107 011 783	98 958 788
Financial assets held to maturity	0006	468 484	390 015
Loans and receivables from banks and other financial organisations	0007	23 681 399	35 733 988
Loans and receivables from clients	0008	190 717 640	203 828 648
Change in fair value of hedged items	0009	-	-
Receivables arising from hedging derivatives	0010	-	-
Investments in associated companies and joint ventures	0011	-	-
Investments into subsidiaries	0012	-	-
Intangible investments	0013	340 887	451 205
Property, plant and equipment	0014	6 459 481	6 605 496
Investment property	0015	2 942 787	2 711 213
Current tax assets	0016	83 558	79 572
Deferred tax assets	0017	129 347	5
Non-current assets held for sale and discontinued operations	0018	143 620	137 802
Other assets	0019	9 085 086	9 050 215
TOTAL ASSETS (from 0001 to 0019)	0020	413 466 023	430 702 109
LIABILITIES			
LIABILITIES			
Financial liabilities recognised at fair value through income statement and held for trading	0401	-	-
Financial liabilities initially recognised at fair value through income statement	0402	-	-
Liabilities arising from hedging derivatives	0403	-	-
Deposits and other liabilities to banks, other financial organisations and central bank	0404	20 300 938	26 247 764
Deposits and other liabilities to other clients	0405	308 067 337	321 094 208
Change in fair value of hedged items	0406	-	-
Own securities issued and other borrowings	0407	-	-
Subordinated liabilities	0408	6 021 978	6 036 680
Provisions	0409	1 852 848	1 732 069
Liabilities under assets held for sale and discontinued operations	0410	-	-
Current tax liabilities	0411	-	14 726
Deferred tax liabilities	0412	290 300	160 991
Other liabilities	0413	6 244 556	3 314 942
TOTAL LIABILITIES (from 0401 to 0413)	0414	342 777 957	358 601 380
CAPITAL			
Share capital	0415	40 034 550	40 034 550
Own shares	0416	-	-
Profit	0417	710 733	6 925 972
Loss	0418	-	-
Reserves	0419	29 942 716	25 140 140
Unrealized losses	0420	-	-
Non-controlling participation	0421	67	67
TOTAL CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422	70 688 066	72 100 729
TOTAL CAPITAL SHORTFALL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423	-	-
TOTAL LIABILITIES (0414 + 0422 - 0423)	0424	413 466 023	430 702 109

INCOME STATEMENT - CONSOLIDATED

from 01.01.2015. to 30.06.2015.

in RSD thousand

ITEM	ADP code	Amount	
		01.01.- 30.06. Current year	01.01.- 30.06. Previous year
1	2	3	4
Interest income	1001	10.681.761	11.909.263
Interest expenses	1002	3.214.178	4.423.222
Net interest income (1001 - 1002)	1003	7.467.583	7.486.041
Net interest expenses (1002 - 1001)	1004	-	-
Income from fees and commissions	1005	3.080.009	2.825.223
Expenses on fees and commissions	1006	570.786	482.299
Net income from fees and commissions(1005 - 1006)	1007	2.509.223	2.342.924
Net expenses on fees and commissions (1006 - 1005)	1008	-	-
Net gains from financial assets held for trading	1009	2.667	3.351
Net losses on financial assets held for trading	1010	-	-
Net gains from hedging	1011	-	-
Net losses on hedging	1012	-	-
Net gains from financial assets initially recognised at fair value through income statement	1013	-	-
Net losses on financial assets initially recognised at fair value through income statement	1014	-	-
Net gains from financial assets available for sale	1015	20.613	8.491
Net losses on financial assets available for sale	1016	-	-
Net exchange rate gains and gains from agreed currency clause	1017	11.046	-
Net exchange rate losses and losses on agreed currency clause	1018	-	78.137
Net gains from investments in associated companies and joint ventures	1019	-	-
Net losses on investments in associated companies and joint ventures	1020	-	-
Other operating income	1021	213.033	166.719
Net income from reduction in impairment of financial assets and credit risk-weighted off-balance sheet items	1022	-	-
Net expenses on impairment of financial assets and credit risk-weighted off-balance sheet items	1023	3.008.602	1.393.137
TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1024	7.215.563	8.536.252
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) < 0	1025	-	-
Salaries, salary compensations and other personal expenses	1026	2.340.264	2.345.775
Depreciation costs	1027	453.267	465.970
Other expenses	1028	3.718.675	3.178.572
PROFIT BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1029	703.357	2.545.935
LOSSES BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1030	-	-
Profit tax	1031	-	-
Gains from deferred taxes	1032	-	-
Losses on deferred taxes	1033	-	-
PROFIT AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1034	703.357	2.545.935
LOSSES AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1035	-	-
Net profit from discontinued operations	1036		
Net losses on discontinued operations	1037		
RESULT FOR THE PERIOD – PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1038	703.357	2.545.935
RESULT FOR THE PERIOD – LOSSES (1034 - 1035 + 1036 - 1037) < 0	1039	-	-
Profit belonging to a parent entity	1040	703.357	2.545.935
Profit belonging to non-controlling owners	1041	-	-
Losses belonging to a parent entity	1042	-	-
Losses belonging to non-controlling owners	1043	-	-
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	1044	-	-
Diluted earnings per share (in dinars, without paras)	1045	-	-

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД 1 БЕОГРАД

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

from 01.01.2015. to 30.06.2015.

in RSD thousand

ITEM	ADP code	Amount	
		01.01. - 30.06. current year	01.01. - 30.06. previous year
1	2	3	4
PROFIT FOR THE PERIOD	2001	703 357	2 545 935
LOSS FOR THE PERIOD	2002	-	-
Other comprehensive income for the period Components of other comprehensive income which cannot be reclassified to profit or loss: Increase in revaluation reserves arising from intangible investments and fixed assets	2003	-	-
Decrease in revaluation reserves arising from intangible investments and fixed assets	2004	-	3 472
Actuarial gains	2005	-	-
Actuarial losses	2006	-	-
Positive effects of change in value of other components of other comprehensive income which cannot be reclassified to profit or loss	2007	-	-
Negative effects of change in value of other components of other comprehensive income which cannot be reclassified to profit or loss	2008	-	-
Components of other comprehensive income which may be reclassified to profit or loss: Positive effects of change in fair value of financial assets available for sale	2009	299 339	527 925
Unrealized losses on securities available for sale	2010	85 876	30 088
Gains from cash flow hedges	2011	-	-
Losses on cash flow hedges	2012	-	-
Cumulative translation gains for foreign operations	2013	-	71 072
Cumulative translation losses for foreign operations	2014	17 116	-
Positive effects of change in value of other components of other comprehensive income which may be reclassified to profit or loss	2015	-	-
Negative effects of change in value of other components of other comprehensive income which may be reclassified to profit or loss	2016	-	-
Tax gains pertaining to other comprehensive income for the period	2017	-	-
Tax losses pertaining to other comprehensive income of the period	2018	-	-
Total positive other comprehensive income for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) ≥ 0	2019	196 347	565 437
Total negative other comprehensive income for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) < 0	2020	-	-
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2021	899 704	3 111 372
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2022	-	-
Total positive comprehensive income for the period belonging to a parent entity	2023	899 704	3 111 372
Total positive comprehensive income for the period belonging to non-controlling owners	2024	-	-
Total negative comprehensive income for the period belonging to a parent entity	2025	-	-
Total negative comprehensive income for the period belonging to non-controlling owners	2026	-	-

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
1

CASH FLOW STATEMENT - CONSOLIDATED

from 01.01.2015. to 30.06.2015.

in RSD thousand

ITEM	ADP code	Amount 01.01. - 30.06. current year	01.01. - 30.06. previous year
1	2	3	4
A. CASH FLOW FROM OPERATING ACTIVITIES			
I. Cash inflow from operating activities (from 3002 to 3005)	3001	14 291 087	13 846 540
1 Interest	3002	11 095 276	10 891 101
2 Fees	3003	3 095 594	2 834 050
3 Other operating income	3004	99 124	120 244
4 Dividends and profit sharing	3005	1 093	1 145
II. Cash outflow from operating activities (from 3007 to 3011)	3006	8 974 374	9 497 220
5 Interest	3007	2 835 060	3 578 724
6 Fees	3008	576 341	484 067
7 Gross salaries, salary compensations and other personal expenses	3009	2 189 571	2 024 644
8 Taxes, contributions and other duties charged to income	3010	405 476	375 467
9 Other operating expenses	3011	2 967 926	3 034 318
III. Net cash inflow from operating activities before an increase or decrease in lending and deposits (3001 - 3006)	3012	5 316 713	4 349 320
IV. Net cash outflow from operating activities before an increase or decrease in lending and deposits (3006 - 3001)	3013	-	-
V. Decrease in lending and increase in deposits received and other liabilities (from 3015 to 3020)	3014	32 793 206	33 328 983
10 Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	27 849 114	19 339 466
11 Decrease in financial assets initially recognised at fair value through income statement, financial assets held for trading and other securities not intended for investment	3016	4 944 092	-
12 Decrease in receivables arising from hedging derivatives and change in fair value of hedged items	3017	-	-
13 Increase in deposits and other liabilities to banks, other financial organisations, central bank and clients	3018	-	13 989 517
14 Increase in financial liabilities initially recognised at fair value through income statement and financial liabilities held for trading	3019	-	-
15 Increase in liabilities arising from hedging derivatives and change in fair value of hedged items	3020	-	-
VI. Increase in lending and decrease in deposits received and other liabilities (from 3022 to 3027)	3021	18 384 812	14 402 621
16 Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	-	-
17 Increase in financial assets initially recognised at fair value through income statement, financial assets held for trading and other securities not intended for investment	3023	-	14 402 621
18 Increase in receivables arising from hedging derivatives and change in fair value of hedged items	3024	-	-
19 Decrease in deposits and other liabilities to banks, other financial organisations, central banks and clients	3025	18 384 812	-
20 Decrease in financial liabilities initially recognised at fair value through income statement and financial assets held for trading	3026	-	-
21 Decrease in liabilities arising from hedging derivatives and change in fair value of hedged items	3027	-	-
VII. Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)	3028	19 725 107	23 275 682
VIII. Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22 Profit tax paid	3030	18 734	405 918
23 Dividends paid	3031	403	484 931
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	19 705 970	22 384 833
X. Net cash outflow for operating activities (3029 - 3028 + 3030 + 3031)	3033	-	-
B. CASH FLOW FROM INVESTING ACTIVITIES			
I. Cash inflow from investing activities (from 3035 to 3039)	3034	17 062 166	13 080 546
1 Investment in investment securities	3035	17 056 671	13 073 190
2 Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3 Sale of intangible investments, property, plant and equipment	3037	5 495	7 356
4 Sale of investment property	3038	-	-
5 Other inflow from investing activities	3039	-	-
II. Cash outflow for investing activities (from 3041 to 3045)	3040	30 611 325	29 957 022
6 Investment into investment securities	3041	30 433 398	29 626 437
7 Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8 Purchase of intangible investments, property, plant and equipment	3043	177 927	329 996
9 Purchase of investment property	3044	-	589
10 Other outflow for investing activities	3045	-	-
III. Net cash inflow from investing activities (3034 - 3040)	3046	-	-
IV. Net cash outflow for investing activities (3040 - 3034)	3047	13 549 159	16 876 476
C. CASH FLOW FROM FINANCING ACTIVITIES			
I. Cash inflow from financing activities (from 3049 to 3054)	3048	55 623 386	102 339 169
1 Capital increase	3049	-	-
2 Subordinated liabilities	3050	-	-
3 Loans taken	3051	55 623 386	102 339 169
4 Issuance of own securities	3052	-	-
5 Sale of own shares	3053	-	-
6 Other inflow from financing activities	3054	-	-
II. Cash outflow for financing activities (from 3056 to 3060)	3055	57 371 333	104 407 076
7 Purchase of own shares	3056	-	-
8 Subordinated liabilities	3057	-	-
9 Loans taken	3058	57 371 333	104 407 076
10 Issuance of own securities	3059	-	-
11 Other outflow for financing activities	3060	-	-
III. Net cash inflow from financing activities (3048 - 3055)	3061	-	-
IV. Net cash outflow for financing activities (3055 - 3048)	3062	1 747 947	2 067 907
D. TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3063	119 769 845	162 595 238
E. TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	115 360 981	159 154 788
F. NET INCREASE IN CASH (3063-3064)	3065	4 408 864	3 440 450
G. NET DECREASE IN CASH (3064-3063)	3066	-	-
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	47 896 270	42 723 039
I. EXCHANGE RATE GAINS	3068	828 802	349 315
J. EXCHANGE RATE LOSSES	3069	609 7[illegible]	137 886
K. CASH AND CASH EQUIVALENTS AT END PERIOD (3065-3066+3067+3068-3069)	3070	[illegible] 528 17[illegible]	46 274 918

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

from 01.01.2015. to 30.06.2015.

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED

in RSD thousand

DESCRIPTION	ADP code	Share capital and other equity (accounts 300, 301,303)	ADP code	Own shares (account 128)	ADP code	Premium on issue of shares (account 302)	ADP code	Reserves from profit and other reserves (group of accounts 31)	ADP code	Revaluation reserves (group of accounts 32 credit balance)	ADP code	Revaluation reserves (group of accounts 32 debit balance)	ADP code	Profit (group of accounts 33)	ADP code	Loss (accounts 340, 341, 342)	ADP code	Total (columns 2-3+4+5+6-7+8-9) ≥ 0	ADP code	Total (columns 2-3+4+5+6-7+8-9) < 0
1		2		3		4		5		6		7		8		9		10		11
Opening balance as at 1 January of the previous year		17 191 525	4029	-	4057	22 843 084	4085	17 063 828	4113	3 261 304	4127	187 011	4141	6 868 966	4175	-	4209	67 041 696	4215	-
Adjustment for material errors and changes in accounting policies in the previous year	4002	-	4030	-	4058	-	4086	-	4114	-	4128	-	4142	-	4176	-		x		x
Adjustment for material errors and changes in accounting policies in the previous year – decrease	4003	-	4031	-	4059	-	4087	-	4115	-	4129	-	4143	-	4177	-		x		x
The adjusted opening balance as at 1 January of the previous year (No 1+2-3)	4004	17 191 525	4032	-	4060	22 843 084	4088	17 063 828	4116	3 261 304	4130	187 011	4144	6 868 966	4178	-	4210	67 041 696	4216	-
Total positive other comprehensive income for the period		x		x		x		x	4117	998 869	4131	-		x		x		x		x
Total negative other comprehensive income for the period		x		x		x		x	4118	-	4132	50 863		x		x		x		x
Profit for the current year		x		x		x		x		x		x	4145	4 795 376		x		x		x
Loss for the current year		x		x		x		x		x		x		x	4179	-		x		x
Transfer from provisions to retained earnings due to provisions reversal – increase		x		x		x		x		x		x	4146	190 318	4180	-		x		x
Transfer from provisions to retained earnings due to provisions reversal – decrease		x		x		x		x		x		x	4147	-	4181	-		x		x
Transactions with owners recognized directly in equity – increase	4005	-	4033	-	4061	-	4089	-		x		x	4148	-	4182	-		x		x
Transactions with owners recognized directly in equity – decrease	4006	-	4034	-	4062	-	4090	-		x		x	4149	-	4183	-		x		x
Distribution of profit – increase	4007	-	4035	-	4063	-	4091	4 220 734		x		x	4150	-	4184	-		x		x
Distribution of profit and/or coverage of losses – decrease	4008	-	4036	-	4064	-	4092	-		x		x	4151	4 220 734	4185	-		x		x
Dividend payments	4009	-	4037	-	4065	-	4093	-		x		x	4152	604 620	4186	-		x		x
Other – increase	4010	3	4038	-	4066	-	4094	23 602		x		x	4153	46 891	4187	-		x		x
Other – decrease	4011	-	4039	-	4067	-	4095	190 318		x		x	4154	150 225	4188	-		x		x
Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0	4012	3	4040	-	4068	-	4096	4 054 018		x		x	4155	-	4189	-		x		x
Total transactions with owners (No 11-12+13-14-15+16-17) < 0	4013	-	4041	-	4069	-	4097	-		x		x	4156	4 928 688	4190	-		x		x
Balance as at 31 December of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)	4014	17 191 528	4042	-	4070	22 843 084	4098	21 117 846	4119	4 260 173	4133	237 874	4157	6 925 972	4191	-	4211	72 100 729	4217	-
Opening balance as at 1 January of the current year	4015	17 191 528	4043	-	4071	22 843 084	4099	21 117 846	4120	4 260 173	4134	237 874	4158	6 925 972	4192	-	4212	72 100 729	4218	-
Adjustment for material errors and changes in accounting policies in the previous year – increase	4016	-	4044	-	4072	-	4100	-	4121	-	4135	-	4159	-	4193	-		x		x
Adjustment for material errors and changes in accounting policies in the previous year – decrease	4017	-	4045	-	4073	-	4101	-	4122	-	4136	-	4160	-	4194	-		x		x
Adjusted opening balance as at 1 January of the current year (No 21+22-23)	4018	17 191 528	4046	-	4074	22 843 084	4102	21 117 846	4123	4 260 173	4137	237 874	4161	6 925 972	4195	-	4213	72 100 729	4219	-
Total positive other comprehensive income for the period		x		x		x		x	4124	275 852	4138	-		x		x		x		x
Total negative other comprehensive income for the period		x		x		x		x	4125	-	4139	85 854		x		x		x		x
Profit for the current year		x		x		x		x		x		x	4162	703 357		x		x		x
Loss for the current year		x		x		x		x		x		x		x	4196	-		x		x
Transfer from provisions to retained earnings due to provisions reversal – increase		x		x		x		x		x		x	4163	-	4197	-		x		x
Transfer from provisions to retained earnings due to provisions reversal – decrease		x		x		x		x		x		x	4164	-	4198	-		x		x
Transactions with owners recognized directly in equity – increase	4019	-	4047	-	4075	-	4103	-		x		x	4165	-	4199	-		x		x
Transactions with owners recognized directly in equity – decrease	4020	-	4048	-	4076	-	4104	-		x		x	4166	-	4200	-		x		x
Distribution of profit – increase	4021	-	4049	-	4077	-	4105	4 613 991		x		x	4167	-	4201	-		x		x
Distribution of profit and/or coverage of losses – decrease	4022	-	4050	-	4078	-	4106	-		x		x	4168	4 613 991	4202	-		x		x
Dividend payments	4023	-	4051	-	4079	-	4107	-		x		x	4169	1 962 750	4203	-		x		x
Other – increase	4024	-	4052	-	4080	-	4108	-		x		x	4170	6 099	4204	-		x		x
Other – decrease	4025	-	4053	-	4081	-	4109	1 413		x		x	4171	347 954	4205	-		x		x
Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0	4026	-	4054	-	4082	-	4110	4 612 578		x		x	4172	-	4206	-		x		x
Total transactions with owners (No 31-32+33-34-35+36- 37) < 0	4027	-	4055	-	4083	-	4111	-		x		x	4173	6 918 596	4207	-		x		x
Balance as at 31 December of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)	4028	17 191 528	4056	-	4084	22 843 084	4112	25 730 424	4126	4 536 025	4140	323 728	4174	710 733	4208	-	4214	70 688 066	4220	-

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 30.06.2015

Belgrade, August 2015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015

1. ESTABLISHMENT AND ACTIVITY OF THE BANKING GROUP

Komercijalna banka a.d., Beograd (hereinafter the “Parent Bank”), was established as at December 1, 1970 and transformed into a shareholding company as of May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991 and later re-registered with the Serbian Business Registers Agency on April, 14 2006. The Bank was issued its operating license by the National Bank of Yugoslavia on July 3, 1991. The Parent Bank’s tax identification number is 100001931.

The principal holders of voting shares in the Parent Bank are as follows:

Republic of Serbia	41.74%
EBRD, London	24.43%

The Parent Bank has three subsidiaries with the following equity interests:

- 100% - Komercijalna banka a.d., Budva, Montenegro
- 100% - KomBank INVEST a.d.,Beograd, Serbia
- 99.998 % - Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina

Minority owner (non-controlling interest) of Komercijalna banka a.d., Banja Luka with 0.002% equity interest is the Republic of Serbia Export Credit and Insurance Agency.

The consolidated financial statements and notes to the consolidated financial statements represent information of the Parent Bank, of Komercijalna banka a.d., Budva, Montenegro, Komercijalna banka a.d., Banja Luka and Investment Fund Management Company KomBank Invest a.d., Beograd (jointly the “Group“).

Komercijalna banka a.d., Budva was established as an affiliate of Komercijalna banka a.d., Beograd in November 2002 and entered into the Central Register maintained by the Commercial Court of Podgorica at March 6, 2003. Its corporate ID number is 02373262.

Komercijalna banka a.d., Banja Luka was established in September 2006 and registered with the Court Register under the relevant decision of the Basic Court in Banja Luka at September 15, 2006. Its corporate ID number is 11009778.

The Investment Fund Management Company KomBank Invest a.d., Beograd was founded in December 2007 and registered at February 5, 2008. Its corporate ID number is 20379758.

The Group’s activities include crediting activities, deposit and guarantee activities and payment transfer operations in the country and abroad in accordance with the Law on Banks, as well as investment fund managing activities. The Group is obligated to operate based upon principles of liquidity, safety and profitability.

As of June 30, 2015 the Group was comprised of the Central Office in Belgrade at the address of no.14, Svetog Save St. head office of Komercijalna banka a.d., Budva in Budva at the address of PC Podkošljun bb, head office of Komercijalna banka a.d., Banja Luka in Banja Luka at the address of no. 6, Veselina Masleše St., head office of Investment Fund Management Company KomBank Invest a.d., Beograd in Belgrade, at the address of no. 19, Kralja Petra St.; 38 branch offices and 237 sub-branches in the territories of Serbia, Montenegro and Bosnia and Herzegovina

As of June 30, 2015 the Group had 3,165 employees (December 31, 2014: 3,178 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Consolidated Financial Statements

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the Law on Accounting (hereinafter referred as: the “Law”, Official Gazette of the Republic of Serbia no. 63/2013). As a large legal entity, the Parent Bank is required to apply International Financial Reporting Standards (“IFRS”), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the “Framework”), International Accounting Standards (“IAS”), International Financial Reporting Standards (“IFRS”), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and additional related interpretations issued by International Accounting Standards Board (“IASB”), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance and which were in effect as at December 31, 2013.

The amendments to IAS, as well as the newly issued IFRS and the related interpretations issued by the IASB and the IFRIC, in the period between December 31, 2002 and January 1, 2009, were officially adopted pursuant to a Decision enacted by the Ministry of Finance of the Republic of Serbia (the “Ministry”) on October 5, 2010 and published in the Official Gazette of the Republic of Serbia no. 77/2010. The Ministry’s Decision dated March 13, 2014 adopted the translation of the Conceptual Framework for Financial Reporting and (the “Conceptual Framework,“ adopted by the IASB in September 2010, which supplants the Framework for Preparation and Presentation of the Financial Statements) and basic texts of IAS and IFRS (“Decision on Adoption of the Translations of the Conceptual Framework for Financial Reporting and Basic Texts of International Accounting Standards and International Financial Reporting Standards,” published the Official Gazette of the Republic of Serbia no. 35 on March 27, 2014 (“Decision on Adoption of the Translations”), encompassing amendments to IAS and new IFRS and related interpretations issued by IASB and IFRIC/effective as of December 31, 2013. Based on this Decision on Adoption of the Translations, the Conceptual Framework, IAS, IFRS, IFRIC and related interpretations that have been translated shall be applied to the financial statements prepared as of December 31, 2014.

The accompanying consolidated financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks (Official Gazette of the Republic of Serbia nos. 71/2014 and 135/2014).

These consolidated financial statements were prepared at historical cost principle unless otherwise stipulated in the accounting policies presented hereunder.

In the preparation of the accompanying financial statements, the Parent Bank adhered to the accounting policies described in Note 3.

In 2015 the Group members maintained their books of account and prepared stand-alone financial statements in accordance with the local legislation, other regulations based on the International Accounting Standards, (IAS) and International Financial Reporting Standards (IFRS) as well as pursuant to the regulations of the competent central banks and regulatory bodies.
For the purpose of preparing the consolidated financial statements, the stand-alone financial statements of the subsidiary banks were adapted to the presentation of the financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia.

Such consolidated financial statements were approved for issue by the Executive Board of Komercijalna banka a.d., Beograd on August 19, 2015.

The Group’s consolidated financial statements are stated in thousands of dinars (RSD). Dinar is the official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts herein are stated in thousands of RSD and rounded to the nearest thousand.

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.1. Basis of Preparation and Presentation of Consolidated Financial Statements (Continued)

Functional currencies - EUR from the financial statements of Komercijalna banka a.d., Budva and BAM from the financial statements of Komercijalna banka a.d., Banja Luka - have been translated into the reporting currency, i.e. the Parent Bank's functional currency – dinar (RSD) using the officially published exchange rates in the Republic of Serbia.

2.2. Going Concern

The consolidated financial statements were prepared on a going concern assumption entailing the Group's continuation of operations for an indefinite period in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied by the Group members to all periods presented in these financial statements.

(a) Consolidation

The Parent Bank has control over the following legal entities, which are consolidated into these financial statements:

Legal Entity	Equity Interest
Komercijalna banka a.d., Budva, Montenegro	100%
Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina	99.99%
Investment Fund Management Company KomBank Invest a.d., Beograd, Serbia	100%

The consolidated income statement and consolidated cash flow statement have been recalculated at the average exchange rate in the Republic of Serbia for the year 2015 of RSD 120.9618 for EUR 1 and RSD 61.8468 for BAM 1, while the other consolidated financial statements (balance sheet, statement of other comprehensive income and statement of changes in equity) were recalculated by applying the closing exchange rate effective as of the balance sheet date of RSD 120.6042 for EUR 1, i.e., RSD 61.6639 for BAM 1.

(b) Foreign Exchange Translation

Transactions in foreign currencies are translated into dinars at the spot middle exchange rates effective at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies, as determined by the National Bank of Serbia, were as follows:

		In RSD
	June 30, 2015	2014
USD	107.7304	99.4641
EUR	120.6042	120.9583
CHF	115.7541	100.5472
BAM	61.6639	61.8450

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, each Group member estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- interest on investment securities available for sale.

Interest income and expenses on all trading assets and liabilities are considered to be incidental to the Group members' trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(d) Fees and Commissions

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income is recognized as the related services are performed. Fee and commission income includes transfer payments in foreign currency, issue and use of payment cards, issue of guarantees, letters of credit and other banking services.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Net Trading Income

Net trading income comprises gains less losses, related to trading assets and liabilities, and includes all realized and unrealized fair value changes and foreign exchange differences.

(f) Net income from Other Financial Instruments at Fair Value through Profit or Loss

Net income from other financial instruments at fair value through profit or loss, relates to financial assets and liabilities designated at fair value through profit or loss and includes all realized and unrealized fair value changes.

(g) Dividends

Income from dividends is recognized at the moment of economic benefits inflow arising from dividends. Dividends are reported under other income.

(h) Operating and Finance Lease Payments

Payments made during the year under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Tax Expenses

Tax expense comprises current taxes and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current Income Tax

Current tax is expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred Income Tax

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously in future periods.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are recognized on all taxable temporary differences.

(iii) Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, Montenegro and Bosnia and Herzegovina, Group members pay various taxes and contributions, such as VAT, capital gains tax and payroll contributions. These are included under “other operating expenses”.

(j) Financial Assets and Liabilities

(i) Recognition

The Group members initially recognize loans and receivables, deposits, borrowings and subordinated liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognized on the balancing date at which the relevant entity becomes a party to the contractual provisions of the instrument.

A financial asset or liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue, for items that are not carried at fair value through profit or loss.

(ii) Classifacation

The Group members classified their financial assets into the following categories: financial assets held for trading, loans and receivables and investment securities – please refer to accounting policies 3(l), 3(m) and 3(n).

The Group members classify financial liabilities as measured at amortized cost or held for trading – please refer to accounting policy 3(t).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(iii) Derecognition

The Group members derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group member neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Group member is recognized as a separate asset or liability in the balance sheet. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

A Group member enters in transactions whereby it transfers assets recognized on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

In transactions in which a Group member neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group member continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of transferred asset. A Group member derecognizes a financial liability when it is settled, cancelled or ceded.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, a Group member has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realized the asset and settle the liability simultaneously.

Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the trading activities of the Group members.

(v) Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, less any impairment.

(vi) Fair Value Measurement

The fair values stated for financial instruments are the amounts for which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

When available, the Group members measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Group members establish fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and other optional models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to a Group member, incorporates all factors that market participants would consider in setting a

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(vi) Fair Value Measurement (Continued)

price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group member calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable. Assets and long positions are measured at a bid price, and liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of a Group member and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that a Group member believes a third-party market participant would take them into account in pricing a transaction.

(vii) Identification and Measurement of Impairment

At reporting date the Group members assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by a bank on terms that a bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

A Group member considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial Assets and Liabilities (Continued)

(vii) Identification and Measurement of Impairment (Continued)

In assessing collective impairment the Group members use statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition costs, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. Movements on provisions for impairment losses attributable to the time value are included as a component of the interest rate.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

The Group members write off certain loans and receivables and investment securities when they are determined to be uncollectible.

(k) Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group members in the management of their current liquidity.

Cash and cash equivalents are carried at amortized cost in the balance sheet.

(l) Trading Assets and Liabilities

Trading assets and liabilities are those assets and liabilities that the Group members acquire or incur principally for the purpose of selling or repurchasing in the near term, or hold as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the balance sheet, with transaction costs directly recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss. Trading assets were not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss upon initial recognition, may have been reclassified out of the fair value through profit or loss, i.e. trading category, if they were no longer held for the purpose of being sold or repurchased in the near term and either of the conditions below were met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the legal entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Trading Assets and Liabilities (Continued)

- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

Derivatives

Financial derivatives comprise forward and swap transactions. Financial derivatives are initially recognized at cost and are subsequently measured at market value. Market values are ascertained based on quoted prices on an active market, as well as by using different valuation techniques, including discounted cash flows. Financial derivatives are accounted for under assets if their market value is positive, and under liabilities if their market value is negative. Fluctuations in market value of financial assets are reported in the income statement, under net trading income.

(m) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group members do not intend to sell immediately or in the near term. They arise when a bank provides money or services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and receivables to banks and customers. Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Approved dinar loans which are hedged using a contractual currency clause linked to the dinar EUR exchange rate, to another foreign currency or consumer price index are converted into dinars at balance sheet date in accordance with the terms of the particular loan agreement. The effects of the currency conversion are reported under trading income and expenses. Loans and receivables are presented net of specific and collective allowances for impairment. Specific and collective allowance, are made against the carrying amount of loans and receivables that are identified as being impaired in order to reduce their value to recoverable amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in impairment charge for credit losses.

n) Investment Securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, at fair value through profit or loss, or as available for sale.

(i) Held-to-Maturity Financial Assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group members have the positive intention and the ability to hold them to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent a Group member from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value,

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Investment Securities (Continued)

(i) Held-to-Maturity Financial Assets (Continued)

- sales or reclassifications after a Group member has collected substantially all of the asset's original principal, and
- sales or reclassifications attributable to non-recurring isolated events beyond a Group member's control that could not have been reasonably anticipated.

(ii) Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are financial assets that are classified as held for trading or upon initial recognition are designated by a Group member as at fair value through profit or loss. Financial assets at fair value through profit or loss are those that a Group member acquired or incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or derivatives.

(iii) Available- for- Sale Financial Assets and Equity Investments

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as another category of financial asset. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Unless there is an active market for financial assets available for sale, these are measured at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when a Group member becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired (long and continuing decline in the fair value in the period longer than twelve months, as well as decline above 30% of cost), as well as the cumulative loss that had been recognized in equity shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized (IAS 39.59, IAS 39.67 and IAS 39.68).

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if a Group member has the intention and ability to hold that financial assets for the foreseeable future or until maturity.

(o) Property and Equipment

(i) Recognition and Measurement

Items of property and equipment are initially measured at cost or purchase price.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Property and Equipment (Continued)

(i) Recognition and Measurement (Continued)

Following initial recognition items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Following initial recognition, property is measured at valuation amount which represents its fair value at valuation date less subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuation is performed regularly in order to ensure that net book value does not differ significantly from reported amounts that would result from using the fair value approach at the end of reporting period.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item or property and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent Costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to a Group member and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated depreciation rates for the current and comparative periods were as follows:

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.5%
Computer equipment	4	25%
Furniture and other equipment	5 – 15	10%-15.5%
Leasehold improvements	1 – 11	4.25%-86.2%

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

Maintenance costs for assets are recognized in the profit or loss in the period when occurred.

(p) Intangible Assets

Intangible assets acquired are stated at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is 3 to 5 years and amortization rates used range between 14.29% and 33.34%.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Intangible Assets (Continued)

Amortization methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(q) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially measured at cost. Cost of acquired investment property comprises the purchase price and all expenses that can be directly attributed to the acquisition of the asset.

For subsequent measurement of investment property the Group members use the cost model, such that investment property is measured at cost less accumulated depreciation and impairment losses.

Estimated useful life of investment property amounts to 40 years, while the depreciation rate used amounts to 2.5%. Depreciation is provided for in profit or loss on a straight line basis over the useful life of a given item of property, given that it reflects best the expected exploitation of the useful economic value embodied in the asset.

(r) Assets Acquired in Lieu of Debt collection and Assets Held for Sale

Assets are classified as held for sale if the carrying amounts thereof can be recovered primarily through a sales transaction and not through further usage.

Non-current assets held for sale are measured at the lower of the carrying value or fair value less costs to sell. If such an asset is not sold within a year from the initial recognition date, its carrying value is adjusted to the fair value as well as in instances of impairment, when the recoverable amount of the asset decreases below its carrying value.

Collection of receivables through acquisition of movable and immovable assets, in instances of receivables securitized with mortgages, trust deeds or pledge liens or another type of collateral, is performed based on a court ruling and/or purchase and sale contract arising from out-of-court settlement or auction purchase.

Movable and immovable assets acquired in lieu of debt collection are recognized in the books of account as inventories of assets acquired in lieu of debt collection intended for sale within a year.

Such assets are initially measured at the lower of:

- gross amount of receivables underlying the acquisition of assets, and
- appraised value of such assets (as per appraisal not older than a year) less costs to sell.

Exceptionally, when assets are acquired as per court ruling in the amount lower than the gross amount of receivables claims, such assets are measured at the value stated in the relevant court ruling. In addition, an appraisal of the acquired assets is performed as soon as possible, at the end of the current year at the latest.

After the initial recognition, the carrying values of assets acquired in lieu of debt collection are adjusted to their fair values as well as in instances of impairment of assets, when their carrying values drop below their recoverable amounts.

To assets acquired in lieu of debt collection and non-current assets held for sale, the Group members implement the procedures of mandatory fair value assessment by qualified experts before the sale. The fair value assessment is made by a qualified external expert if an existing appraised value is over a year old in order to arrive at the framework for sale pricing.

Based on the qualified experts' assessments of the value of assets acquired in lieu of debt collection and assets held for sale, the carrying values of such assets are adjusted to their fair values in accordance with the requirements of IFRS 5.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Leases

The Group members appear as lessees in leasing agreements. The Group members classify leases as financial leasing when the lease agreement stipulates that the basic risks and benefits of ownership over the leased assets are transferred to the lessee. All other leasing agreements are classified as operating leases.

Lease agreements that relate to lease of office space in which the Group members' branches are located primarily relate to operating leases. All payments made during the year based on operating leases are reported as an expense in the statement of comprehensive income on a straight line basis over the duration of the lease period.

Assets that are held based on a finance lease agreement are recognized as the Group members' assets at the lower of their fair value or the present value of minimum lease payments specified at the start of the lease agreement. The corresponding liability toward the lessor is reported in the statement of financial position as a finance lease liability. Lease payments are apportioned between the finance expense and the reduction of the outstanding finance lease liability, such that a constant interest rate is achieved on the outstanding portion of the liability. The financial expense is reported directly as a period expense.

(t) Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(u) Deposits, Borrowings and Subordinated Liabilities

Deposits, debt securities, borrowings and subordinated liabilities are the Group's main sources of financing.

The Group members classify capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities, borrowings and subordinated liabilities are initially measured at fair value increased for all directly attributable transaction costs, while they are subsequently measured at amortized cost using the effective interest rate method.

(v) Provisions

A provision is recognized if, as a result of a past event, a Group member has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Provisions (Continued)

benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(w) Employment Benefits

In accordance with regulatory requirements, the Group members are obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Group members are also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to personnel expenses in the period in which they arise.

In accordance with the Labor Law, the Group members are under obligation to pay their vesting employees retirement benefits. Long-term liabilities for retirement benefit provisions upon fulfillment of retirement criteria reported as of December 31, 2014 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions.

(x) Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are reported under off-balance sheet items.

(y) Equity and Reserves

The Group's equity consists of founders' capital, shares of subsequent issues, share premium, reserves, fair value (revaluation) reserves, retained earnings and current year's profit.

The Group's equity is comprised of funds invested by the Parent Bank's founders and minority founder of Komercijalna banka a.d., Banja Luka in pecuniary form. A founder cannot withdraw funds invested in the Group's equity.

(z) Earnings per Share

The Parent Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders for the effects of all dilutive preferred shares and dividing it by the weighted average number of ordinary shares outstanding.

(zz) Segment Reporting

An operating segment is a component of the Group – a Group member – that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by Parent Bank's management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which separate audited financial statements are available.

4. RISK MANAGEMENT

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

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

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

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

The Group implements Basel II standards and permanently monitors all the announcement and amendments to the effective regulations, analyses 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 Group. Through the clearly defined process of introducing new products, the Group analyses the influence of all new services and products on the future risk exposures in order to optimize its revenues and losses based on the estimated risk as well as to minimize all potential adverse effects on the Group'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 Banking Group's business policy and strategy and its attitude 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 Group's capital adequacy; and
- Overview and definitions of all types of risk the Group is exposed to or may be exposed to.

The Banking Group 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 Group;
- 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 Banking Group and clear division of personnel responsibilities in all stages of the process;

4. RISK MANAGEMENT (Continued)

Risk Management System (Continued)

- Manner of assessing the Banking Group'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 Banking Group 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 Banking Group'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 Parent Bank and Banking Group members 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 Parent Bank and the Group are exposed to. The Executive Board reports to the Board of Directors on implementation efficiency of defined management risk procedures.

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

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

The Credit Committee decides on loan requests in accordance with the Parent Bank's internal acts, it analyzes the Parent Bank's exposure to credit, interest rate and currency risk, it analyzes the credit portfolio and implements the recommendations of the internal audit under the Committee's remit, and also suggests adequate measures to the Parent Bank's Executive Board. Each Group member has its own Credit Committee, which makes decisions within its remit and limits.

The Work-Out Committee of the Parent Bank is authorized and responsible for managing risk weighted loans; 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 of the Parent Bank in instances of loans in excess of its limits of authorization. Each Group member has its own Credit Committee to make decisions on risk-weighted loans.

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

4. RISK MANAGEMENT (Continued)

Competencies (Continued)

The Parent Bank's Treasury is responsible for managing assets and liquidity, as well as assets and liabilities on the Group level. It also participates in the liquidity risk management and interest rate and currency risk management.

The Internal Audit Division is responsible for continued monitoring of implementation of risk management policies and procedures on the Group level, and tests the adequacy of procedures and the Group members' compliance with them. The 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 at least annually compliance risks of the Parent Bank and Group members against the Annual Business Plan adopted by the Board of Directors and proposes risk management plans, of which it prepares a report and submits it to the Executive Board and Board for Monitoring of the Parent Bank's Operation. This report is adopted by the Executive Board and submitted to the Board of Directors for their information. The Banking Group members have organizational units for risk management, asset management and internal audit.

Risk Management Process

The Banking Group 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 Banking Group determines their significance based on as comprehensive assessment of risks in the Banking Group's particular operations, products, activities and processes.

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

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

Risk management reports are regularly submitted to: the Board of Directors, Executive Board, Audit Committee, ALCO and Credit Committee, and they contain all the information required for risk assessment and reaching of conclusions about the risks. Group members report to the Parent Bank's risk management organizational unit on a monthly basis.

Risk Types

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

4.1. Credit Risk

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

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

Prior to loan approval, each Group member 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 Group member's competent bodies enact a loan approval decision in accordance with the defined decision making system.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

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

Credit Risk Management

According to the volume, type and complexity of its operations, the Group 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 Group 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 Group members have also established an adequate information system for full coverage of persons involved in credit risk management system and appropriate management reporting.

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

The basic principles of credit risk management are as follows:

- Managing credit risk at the individual loan level as well as the Group's entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the Group'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 their effort to manage credit risk all Group members seek to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Group members assess creditworthiness of each customer upon the submission of a loan application and regularly monitor their debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting their receivables.

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

The rating system is not merely an instrument for encasement individual decisions and assessing risk levels of individual investments; 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 subject to regular review and improvements.

For adequate and efficient management of the risks they are exposed to, the Parent Bank and Group members also comply with the principles prescribed by their respective central banks, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses.

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

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management (Continued)

Basic credit risk alleviating techniques are:

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

The 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 Group members continuously control credit risk movements within a defined risk profile. In instances of exceeding the internal limits, the Group members submit explanations thereof and propose measures and action plans, while the Parent Bank notifies the Executive Board on the aforesaid excess of limits. Group members are obligated to inform the Parent Bank on any extraordinary circumstances in their operations that may occur due to the adverse local market trends, political and economic crises and the like.

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

The Parent Bank performs continuous control and monitoring of the exposure risk at the Group's portfolio level, within regulatory prescribed limits. In instances of exceeding the prescribed limits, the Parent Bank determines the causes thereof, informs the Executive Board thereof and proposes to the Parent Bank's Executive Board protective measures against the exposure risk.

At the Group level, investment diversification is aimed at alleviating credit risk through reduction portfolio concentrations in certain segments of assets.

Monitoring loan 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. The Group members also continuously monitor and review adequacy of the process of loan rating and classification into risk groups according to the extent of recoverability.

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 Group members undertake the following steps in respect to collection of due receivables: loan rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; sale and/or assignment of receivables; execution of agreements with interested third parties; and instigation of court proceedings and other measures.

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

Apart from credit risk exposure, the Group also has off-balance sheet exposures (various types of payment and performance guarantees, acceptances and letters of credit) based on which the Group has contingent liabilities to make payments on behalf of third parties. For off-balance sheet exposures the Group 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:

- The Group members report to the Parent Bank on a monthly basis;
- The Parent Bank reports on a consolidation basis, semi-annually and annually.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Management (Continued)

Downgrade Risk

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

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

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

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

Risk of Change in Value of Assets

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

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

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

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

The Group members assess allowance for impairment of receivables on an individual and on a group basis.

Individual Assessment

Each Group member 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 Group member will be settled, ad hoc assessment of loan impairment is performed.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

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.

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.

4.1.1. Maximum Credit Risk Exposure are:

Impaired Loans and Receivables

Impaired loans and receivables are those for which the Group members have determined the existence of objective evidence of impairment and do not expect them to be collected in full amounts of principal and interest matured pursuant to the relevant loan agreements. Loans and receivables are impaired on both an individual and a group basis.

Receivables Matured but not Impaired

Loans and receivables matured but not impaired represent those loans and receivables where there is default in settling liabilities for contractually agreed interest or principal outstanding (the report shows the entire receivable amount as matured for any matured portion of principal or interest). The Parent Bank believes that it is not appropriate to make impairment allowance for such receivables given that there is certainty of collection.

Receivables not Matured and not Impaired

Loans and receivables not matured and not impaired are those determined as ineligible for impairment allowance given the probability of default status and certainty of collection by the Group members.

4.1.2. Loans with Altered Initially Agreed Terms

Loans with altered initially agreed terms are loans rescheduled and/or restructured due to the borrowers' difficulties in servicing liabilities as these fall due. Considering such difficulties, the Group members decide on altering the terms and deadlines stipulated by loan agreements giving the borrowers the opportunity to discharge liabilities more easily.

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).

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.2. Loans with Altered Initially Agreed Terms (Continued)

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 from 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.

4.1.3. Concentration Risk

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

4.1.4. Financial Assets

Financial assets at fair value through profit and loss held for trading relate to the Republic of Serbia's old foreign currency savings bonds, corporate and bank shares and investment units. These assets are measured using the methodology of adjusting to the market prices (mark to market) or internally developed valuation models (mark to model), depending on the availability of daily changing prices or whether they are subject of continuous trading.

Available-for-sale financial assets represent financial instruments which are intended to be held over an indefinite time period and which may be sold for liquidity purposes, due to the movements in interest rates, exchange rates or prices of capital. They mostly comprise Treasury bills and bonds issued by the Republic of Serbia, United Kingdom, the Republic of Srpska, local municipalities and bonds of other banks. Available-for-sale assets are initially measured at cost, and on a quarterly basis fair value thereof is determined based on the market prices for securities traded in active stock exchange (mark to market). Internally developed valuation models (mark to model) are used in instances that for certain financial instruments independent sources of market information are not available, and are based on the maturity of the security and the risk-free interest rate level.

4.1.5. Credit Risk Hedges (Collaterals)

For the purpose of protection against credit risk, in addition to regular monitoring of the customer business operations, the Group also acquires security instruments (collaterals) to secure the collection of receivables and minimize credit risk. The collateral quantity and type depend on the assessed credit risk.

As a standard type of loan security instrument, each Group member 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 liens instituted over movable assets and immovable property (mortgages), deposits, banking, corporate and state-issued guarantees, sureties, pledge liens instituted over securities, equity interests, receivables and livestock;
- for retail loans – mortgages, deposits, co-sureties and insurance of the National Corporation for Housing Loans for the Parent Bank's housing loans.

For valuation of property or pledges assigned over movable assets, the Group members hire 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 Group and insurance policies must be duly endorsed in favor of the Group members.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

4.1.5. Credit Risk Hedges (Collaterals)(Continued)

For protection against changes in the market value of collaterals (mortgages, pledge liens, securities, etc.) the appraised collateral value is adjusted for the predefined haircut percentage dependent on the type and location of collateral, which is reviewed at least annually, o more frequently, as appropriate. This is how the Group protects itself from potential losses arising from inability to collect its receivables from collateral foreclosure.

The Group members monitor and update the values and trends in collaterals in order to minimize the risk of unrealistic valuation, if necessary, the bank may demand additional collateral in accordance with the executed loan agreements. Collaterals represent a secondary source of collection of receivables.

4.2. Liquidity Risk

Liquidity risk represents the risk of negative effects on the Group's financial result and equity resulting from the Group'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 Group 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 is manifest as the mismatch of the inflow of assets on one end and the maturities of liabilities on the other, including the possibility of delays in expected inflows as well as that of unexpected outflows. 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 Group has established appropriate organizational structure, which allows for clear differentiation between the process of assuming and the process of managing liquidity risk. The Parent Bank's 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 Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

- 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; and
- 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 Group 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.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

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; and
- Stress test.

Minimizing liquidity risk consists of maintaining this risk at a level that is acceptable to the Group'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 Group'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 Group'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 Group'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 Group also monitors compliance with the regulatory prescribed rigid/cash liquidity ratio as follows: minimum 0.5 for one working day; minimum 0.6 for no longer than three consecutive working days and minimum 0.7 as the average liquidity ratio for all working days in a month.

In near term, the Group 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 Group plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves. The Group'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 Group regularly 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.

4.3. Market Risks

Market risk represents the possibility of occurrence of negative effects on the Group'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 Group is exposed to price risk, interest rate risk, currency risk, 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 trading 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 (ALCO) and Investment Committee have the most significant role therein as well as other competent boards/committees of the Parent Bank and Group members, whose decisions can impact the Group's exposure to this risk.

4. RISK MANAGEMENT (Continued)

4.3.1. Interest Rate Risk

Interest rate risk represents the probability of negative effects on the Group'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 Group manages the following types of interest rate risk:

- Repricing risk of temporal mismatch between maturity and repricing;
- Yield curve risk – to which the Group is exposed due to changes in yield curve shape;
- Basis risk – to which the Group 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 Group is exposed due to contractually agreed optional terms – loans with an option of early repayment, deposits with an option of early withdrawal, etc.

The 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 Group manages the internal yield margin through the prices of loans and deposits, focusing on the interest rate margin.

The Group 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 Group 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 Group's risk profile. Alleviating interest rate risk refers to the process of defining the systems of limited exposure of the Group 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 Group'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 Group members' 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.

The Group members' management believes that appropriate matching of items 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.

4. RISK MANAGEMENT (Continued)

4.3.2. Currency Risk

Currency risk represents the possibility of negative effects on the Group'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 Group 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 Group 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 process of currency risk management entails identifying, measuring, minimizing, monitoring, control and currency risk reporting.

The Group 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 Group 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 Group'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.

The Group 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 Group's regulatory capital.

4.4. Operational Risk

Operational risk represents the possibility of negative effects on the Group's financial result and equity due to employee errors (intentional or accidental), inadequate procedures and processes in the Group, inadequate management of information and other systems in the Group, 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.

4. RISK MANAGEMENT (Continued)

4.4. Operational Risk (Continued)

The Group 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 Group'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 Group monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Group 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 Group which is responsible for risk management monitors and reports operational risks to the Group's Board of Directors, the Group's Executive Board and the Audit Committee.

Measurement and assessment of operational risk at the Group is done through quantitative and/or qualitative assessment of identified operational risk. The Group 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 Group's exposure to operational risk.

The Group 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 Group 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 Group's business processes.

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Group has established a system for monitoring the activities undertaken by the Group's organizational parts in order to reduce arising operational risks. The Group assess the risk of entrusting third parties with activities related to the Group'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 Group, and to limit losses that could be incurred in extraordinary circumstances, the Group 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 Group adopted the Disaster Recovery Plan.

4.5. Investment Risks

The Group's investment risk relates to the risk of investing in other entities and capital expenditures. The Group's investments in a non-financial sector entity cannot exceed 10% of the Group's equity, whereby such investments entail investments through which the Group acquires equity interest or shares in a non-financial sector entity. The total Group's investment in non-financial sector entities and Group's own fixed assets cannot exceed 60% of the Group'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.

4. RISK MANAGEMENT (Continued)

4.6. Exposure Risk

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

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

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

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

4.7. Country Risk

Country risk relates to the risk of the country of origin of the entity the Group is exposed to, i.e. the possibility of negative effects on the Group'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 Group's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;

- Transfer risk relates to the probability of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

Management of country risk is made per individual loans and receivables and at the Group's portfolio level. Measurement of exposure of an individual receivable to country risk is based on the country rating of the Group'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 Group's equity, depending on the internal country rating category. The Group 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 Group defines exposure limits individually per borrower country of origin.

4.8. Fair Value of Financial Assets and Liabilities

Fair values of loans and receivables due from customers are estimated using the discounted cash flows model in instances of loans and receivables at fixed interest rates. Discounts rates are based on the current market interest rates applied to instruments offered under similar terms to borrowers with similar credit ratings. In addition, liabilities due to customers with defined maturities and contracted at fixed interest rates are discounted taking into account the prevailing terms according to the deposit types, terms and maturities.

Loans that are no longer approved and cannot be approved (loans indexed to CHF) are discounted at the same interest rates. In addition, loans approved at fixed interest rates subsidized by the Government were discounted at the same rate since the Group members would not have approved loans at low interest rates had the Government not subsidized portion of the interest rate. All loans and receivables approved at variable interest rates were approved in accordance with the prevailing market terms and the Group members' Business Policies.

Fair values of investment securities held to maturity are estimated using market prices or the discounted cash flows model based on current market interest rates applied to similar product instruments offered. Investment securities held to maturity have all matured resulting in the carrying values being equal to their fair values.

4. RISK MANAGEMENT (Continued)

4.9. Capital Management

The Group 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 Group's business policy goals.

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

The Banking Group 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 Group's operations;
- Realize business and financial plans;
- Support the expected growth of loans and receivables due from customers;
- Ensure optimum future sources of funds and deployment thereof;
- Realize the dividend policy.

The Group's regulatory capital represents the sum of the core capital and supplementary capital, reduced for deductible items. The capital adequacy ratio represents the Group's capital relative to the sum of credit risk-weighted assets, foreign currency gap and operational risk exposure. Credit risk-weighted assets are determined according to risk weights prescribed for all types of assets. Exposure to operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line. The capital requirement for the currency risk on the Banking Group level equals the sum of the individual capital requirements for the aforesaid risk of all Banking Group members, where the sum of the net open currency position and the absolute open position in gold exceeds 2% of the capital.

Capital adequacy ratio

	June 30, 2015	2014
Core capital	38,583,093	34,335,837
Supplementary capital	4,913,041	4,669,970
Deductible items	(190,945)	(189,710)
Capital	**43,305,189**	**38,816,098**
Credit risk-weighted assets	174,126,692	185,240,046
Operational risk exposure	22,226,159	20,601,708
Foreign currency risk exposure	2,742,545	1,447,635
Capital adequacy ratio (minimum 12%)	**21.75%**	**18.73%**

In the course of 2014 and 2015 the Group's capital adequacy ratio was in excess of the prescribed regulatory limit of 12%.

Through its Capital Management Strategy, the Banking Group ensures maintenance of the level and structure of the internal capital, which adequately supports increase in loans and receivables, future sources of funding and their utilizations 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.

4. RISK MANAGEMENT (Continued)

4.9. Capital Management (Continued)

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

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

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

Stages of the internal capital adequacy assessment include the following:

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

5. USE OF ESTIMATES

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and underlying assumptions are continually reviewed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key Sources of Estimation Uncertainty

Provisions for Credit Losses

Assets accounted for at amortized cost are assessed for impairment on a basis described in accounting policy 3(j) (vii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and receivables and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowances, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

5. USE OF ESTIMATES (Continued)

Key Sources of Estimation Uncertainty (Continued)

Determining Fair Values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(j) (vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical Accounting Judgments in Applying the Group's Accounting Policies

Critical accounting judgments made in applying the Group's accounting policies include:

Impairment of Investments in Equity Shares

Investments in equity shares are estimated for impairment in accordance with the method described under accounting policies 3(j) (vii) and 3(n).

Valuation of Financial Instruments

The Group's accounting policy on fair value measurement is disclosed in accounting policy 3(j) (vi).

The Group members measures fair values using the following fair value hierarchy that reflects the significance of the inputs used valuation:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs other than quoted prices, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group members determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable price exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the future markets.

6. SEGMENT REPORTING

6.1. Segment Reporting – Group Members

As presented below, the Group has the total of four members representing the strategic organizational units of the Group:

Komercijalna banka a.d., Beograd, Serbia, Parent Bank	Involved in crediting activities, depository and guarantee activities and payment transfer operations in the country and abroad, as well as trading in securities and other financial instruments.
Komercijalna banka a.d., Budva, Montenegro	Involved in crediting activities, depository and guarantee activities and payment transfer operations in the country and abroad, as well as trading in securities and other financial instruments.
Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina	Involved in crediting activities, depository and guarantee activities and payment transfer operations in the country and abroad, as well as trading in securities and other financial instruments.
The Investment Fund Management Company KomBank INVEST a.d., Beograd, Serbia	Involved in investment fund managing activities.

Information on each reporting segment's results is presented in the following pages. Successfulness of business operation of each of the segments is based on the profit before taxes determined in the manner as presented within the internal reports to the management, which are subject to inspection and review of the Parent Bank's Executive Board and competent Management Boards of each Group member.

Each operating segment's result (profit or loss) is used to measure the performance, i.e., the successfulness of business operation, since the Parent Bank's management believes that such information is the most relevant for evaluation of a certain segment's result as compared to other legal entities involved in the aforesaid business activities and operating in the local market. Prices for inter-segmental settlement are determined under the market terms.

The Parent Bank monitors and discloses information on its operating segments – lines of business within its consolidated financial statements. The major portion of the Group's business operations is conducted in the territory of the Republic of Serbia. Subsidiaries are immaterial to the Parent Bank's stand-alone financial statements.

The Parent Bank's total balance sheet assets accounted for 92.82% of the total consolidated balance sheet assets (2014: 92.9%).

The total balance sheet assets of Komercijalna banka a.d., Budva accounted for 3.35% of the total consolidated balance sheet assets (2014: 3.24%), the total balance sheet assets of Komercijalna banka a.d., Banja Luka – 3.80% (2014: 3.83%) and those of KomBank Invest – 0.03% (2014: 0.03%).

Upon consolidation, all inter-company transaction balances were eliminated from the balance sheet in the amount of RSD 6,326,325 thousand (2014: RSD 6,231,466 thousand). From the income statements income totaling RSD 12,381 thousand (30.06.2014: RSD 20,672 thousand) was eliminated, as well as expenses amounting to RSD 8,908 thousand (30.06.2014: RSD 16,163 thousand):

6. SEGMENT REPORTING (Continued)

6.1. Segment Reporting – Group Members (Continued)

Balance Sheet – June 30, 2015

	Summary Unconsolidated Balance Sheet	Consolidated Balance Sheet Amount	Consolidated Balance Sheet
	419,792,348	**6,326,325**	**413,466,023**
Cash/liabilities		221,450	
Loans/liabilities		623,987	
Investments/equity		5,480,888	

Income Statement – June 30, 2015

	Summary Unconsolidated Profit within Income Statement (before taxes)	Consolidated Income Statement Amount		Consolidated Profit (before taxes)
		Income	Expenses	
	706,830	**12,381**	**8,908**	**703,357**
Interest		4,826	4,826	
Fees and commissions		4,082	4,082	
Foreign exchange effects		3,473	-	

Balance Sheet - 2014

	Summary Unconsolidated Balance Sheet	Consolidated Balance Sheet Amount	Consolidated Balance Sheet
	436,933,575	**6,231,466**	**430,702,109**
Cash/liabilities		128,678	
Loans/liabilities		621,900	
Investments/equity		5,480,888	

Income Statement – June 30, 2014

	Summary Unconsolidated Profit within Income Statement (before taxes)	Consolidated Income Statement Amount		Consolidated Profit (before taxes)
		Income	Expenses	
	2,550,444	**20,672**	**16,163**	**2,545,935**
Interest		14,265	14,265	
Fees and commissions		1,898	1,898	
Foreign exchange effects		4,509	-	

The Parent Bank's management reviews and controls internal reports to the management of each strategic organizational component of the Group at least on a quarterly basis. What follows are the summaries of the operating segments' financial information and activities of each segment for June 30, 2015 and 2014.

6. SEGMENT REPORTING (Continued)

A. BALANCE SHEET as of June 30, 2015

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and cash funds held with the central bank	68,102,145	1,531,990	2,620,697	-	72,254,832
Financial assets at fair value through profit and loss, held for trading	129,537	-	-	17,582	147,119
Financial assets available for sale	103,456,744	2,463,859	1,091,180	-	107,011,783
Financial assets held to maturity	136,675	228,723	-	103,086	468,484
Loans and receivables due from banks and other financial institutions	21,703,585	1,399,612	578,202	-	23,681,399
Loans and receivables due from customers	173,688,747	5,932,689	11,096,204	-	190,717,640
Intangible assets	300,596	21,692	18,578	21	340,887
Property, plant and equipment	6,200,408	203,421	55,600	52	6,459,481
Investment property	2,814,408	-	128,379	-	2,942,787
Current tax assets	76,258	-	7,040	260	83,558
Deferred tax assets	127,530	1,812	-	5	129,347
Non-current assets held for sale and assets from discontinued operations	65,000	-	78,620	-	143,620
Other assets	6,981,044	2,070,174	33,092	776	9,085,086
Total assets	**383,782,677**	**13,853,972**	**15,707,592**	**121,782**	**413,466,023**
LIABILITIES AND EQUITY					
Deposits and other liabilities due to banks, other financial institutions and the central bank	18,655,093	319,757	1,326,088	-	20,300,938
Deposits and other liabilities due to customers	288,662,985	9,695,367	9,708,985	-	308,067,337
Subordinated liabilities	6,021,978	-	-	-	6,021,978
Provisions	1,781,325	43,039	27,901	583	1,852,848
Current tax liabilities	-	-	-	-	-
Deferred tax liabilities	277,936	11,780	584	-	290,300
Other liabilities	6,110,264	56,728	76,249	1,315	6,244,556
Total liabilities	321,509,581	10,126,671	11,139,807	1,898	342,777,957
Equity					
Issued capital and share premium	40,034,550	-	-	-	40,034,550
Retained earnings/(accumulated losses)	77,711	629,028	24,070	(20,076)	710,733
Reserves	29,033,646	611,621	297,477	(28)	29,942,716
Non-controlling interests	-	-	67	-	67
Total equity	69,145,907	1,240,649	321,614	(20,104)	70,688,066
Total liabilities and equity	**390,655,488**	**11,367,320**	**11,461,421**	**(18,206)**	**413,466,023**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015

6. SEGMENT REPORTING (Continued)

B. BALANCE SHEET as of December 31, 2014

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and cash funds held with the central bank	68,547,389	1,471,749	2,614,390	-	72,633,528
Financial assets at fair value through profit and loss, held for trading	121,634	-	-	-	121,634
Financial assets available for sale	95,481,249	2,290,164	1,187,375	-	98,958,788
Financial assets held to maturity	51,442	229,619	-	108,954	390,015
Loans and receivables due from banks and other financial institutions	34,125,456	1,321,213	287,319	-	35,733,988
Loans and receivables due from customers	185,377,035	6,366,527	12,085,086	-	203,828,648
Intangible assets	405,774	26,299	19,089	43	451,205
Property, plant and equipment	6,329,077	208,573	67,778	68	6,605,496
Investment property	2,581,144	-	130,069	-	2,711,213
Current tax assets	73,835	-	5,478	259	79,572
Deferred tax assets	-	-	-	5	5
Non-current assets held for sale and assets from discontinued operations	84,227	-	53,575	-	137,802
Other assets	6,990,222	2,025,298	34,219	476	9,050,215
Total assets	**400,168,484**	**13,939,442**	**16,484,378**	**109,805**	**430,702,109**
LIABILITIES AND EQUITY					
Deposits and other liabilities due to banks, other financial institutions and the central bank	23,604,592	299,887	2,343,285	-	26,247,764
Deposits and other liabilities due to customers	301,954,911	9,687,203	9,452,094	-	321,094,208
Subordinated liabilities	6,036,680	-	-	-	6,036,680
Provisions	1,640,595	53,120	37,771	583	1,732,069
Current tax liabilities	-	14,726	-	-	14,726
Deferred tax liabilities	150,407	9,998	586	-	160,991
Other liabilities	3,189,109	66,997	58,163	673	3,314,942
Total liabilities	336,576,294	10,131,931	11,891,899	1,256	358,601,380
Equity					
Issued capital and share premium	40,034,550	-	-	-	40,034,550
Retained earnings/(accumulated losses)	5,980,128	966,155	1,355	(21,666)	6,925,972
Reserves	24,569,377	287,776	283,015	(28)	25,140,140
Non-controlling interests	-	-	67	-	67
Total equity	70,584,055	1,253,931	284,437	(21,694)	72,100,729
Total liabilities and equity	**407,160,349**	**11,385,862**	**12,176,336**	**(20,438)**	**430,702,109**

6. SEGMENT REPORTING (Continued)

C. INCOME STATEMENT – January 1 trough June 30, 2015

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	9,920,973	347,341	407,532	5,915	10,681,761
Interest expenses	(3,022,693)	(93,148)	(98,337)	-	(3,214,178)
Net interest income	6,898,280	254,193	309,195	5,915	7,467,583
Fee and commission income	2,894,123	71,716	111,069	3,101	3,080,009
Fee and commission expenses	(523,216)	(16,072)	(31,342)	(156)	(570,786)
Net fee and commission income	2,370,907	55,644	79,727	2,945	2,509,223
Net gains on the financial assets held for trading	2,036	-	-	631	2,667
Net gains on the financial assets available for sale	11,856	-	8,243	514	20,613
Net foreign exchange gains and positive currency clause effects	21,180	2,240	(12,388)	14	11,046
Other operating income	209,169	1,938	1,786	140	213,033
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	(2,918,607)	(42,973)	(47,022)	-	(3,008,602)
Total operating income	6,594,821	271,042	339,541	10,159	7,215,563
Staff costs	(2,058,986)	(135,124)	(140,657)	(5,497)	(2,340,264)
Depreciation and amortization charge	(413,958)	(18,646)	(20,625)	(38)	(453,267)
Other expenses	(3,423,579)	(143,892)	(148,440)	(2,764)	(3,718,675)
Profit before taxes	698,298	(26,620)	29,819	1,860	703,357
Current income tax expense	-	-	-	-	-
Gains on created deferred tax assets and decrease in deferred tax liabilities	-	-	-	-	-
Losses decrease in deferred tax assets and created deferred tax liabilities	-	-	-	-	-
Profit for the year	**698,298**	**(26,620)**	**29,819**	**1,860**	**703,357**

6. SEGMENT REPORTING (Continued)

D. INCOME STATEMENT – January 1 trough June 30, 2014

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Budva	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Interest income	11,090,416	404,516	407,133	7,198	11,909,263
Interest expenses	(4,209,924)	(100,263)	(113,035)	-	(4,423,222)
Net interest income	6,880,492	304,253	294,098	7,198	7,486,041
Fee and commission income	2,662,011	73,695	87,932	1,585	2,825,223
Fee and commission expenses	(441,359)	(15,408)	(25,216)	(316)	(482,299)
Net fee and commission income	2,220,652	58,287	62,716	1,269	2,342,924
Net gains on the financial assets held for trading	2,800	-	-	551	3,351
Net gains on the financial assets available for sale	8,248	-	243	-	8,491
Net foreign exchange losses and negative currency clause effects	(80,980)	2,418	447	(22)	(78,137)
Other operating income	154,231	9,778	2,702	8	166,719
Net losses from impairment of financial assets and credit risk-weighted off-balance sheet assets	(1,409,753)	33,818	(17,202)	-	(1,393,137)
Total operating income	7,775,690	408,554	343,004	9,004	8,536,252
Staff costs	(2,090,603)	(119,507)	(130,669)	(4,996)	(2,345,775)
Depreciation and amortization charge	(420,984)	(14,801)	(30,142)	(43)	(465,970)
Other expenses	(2,888,899)	(139,038)	(147,907)	(2,728)	(3,178,572)
Profit before taxes	2,375,204	135,208	34,286	1,237	2,545,935
Current income tax expense	-	-	-	-	-
Gains on created deferred tax assets and decrease in deferred tax liabilities	-	-	-	-	-
Losses decrease in deferred tax assets and created deferred tax liabilities	-	-	-	-	-
Profit for the year	**2,375,204**	**135,208**	**34,286**	**1,237**	**2,545,935**

7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets whose Fair Value Approximates the Carrying Value

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and financial instruments at variable interest rates.

(ii) Fixed Rate Financial Instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates upon their initial recognition to the current market interest rates offered for similar financial instruments. The assessed fair values of assets and liabilities with fixed interest rates mostly correspond to the carrying values thereof given that the interest rates applied do not depart from market interest rates. There are no materially significant departures in this respect.

8. THE PARENT BANK'S INVESTMENTS IN SUBSIDIARIES

	June 30, 2015	December 31, 2014
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banka a.d., Budva	2,366,273	2,366,273
	5,480,888	5,480,888
Eliminated for consolidation purposes	-5,480,888	-5,480,888
Consolidated balance as at June 30	-	-

Based on the equity investments in the foreign subsidiaries, the Parent Bank stated translation reserves in the amount of RSD 1,661,232 thousand (2014: RSD 1,681,795 thousand).

9. EQUITY

9.1 Equity is comprised of:

	June 30, 2015	December 31, 2014
Issued capital	17,191,528	17,191,528
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	25,730,424	21,117,846
Revaluation reserves	4,212,297	4,022,299
Retained earnings	710,733	6,925,972
	70,688,066	72,100,729

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015

9. EQUITY (Continued)

Equity Structure	June 30, 2015			December 31, 2014		
	Majority Interest	Non-Controlling Interests	Total	Majority Interest	Non-Controlling Interests	Total
Share capital	17,191,466	62	17,191,528	17,191,466	62	17,191,528
Share premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	**40,034,550**	**62**	**40,034,612**	**40,034,550**	**62**	**40,034,612**
Profit	**710,733**	**-**	**710,733**	**6,925,972**	**-**	**6,925,972**
Reserves from profit and other reserves	25,730,419	5	25,730,424	21,117,841	5	21,117,846
Revaluation reserves	2,737,099	-	2,737,099	2,444,131	-	2,444,131
Revaluation reserves (debit balance)	(323,728)	-	(323,728)	(237,874)	-	(237,874)
Translation reserves	1,798,926	-	1,798,926	1,816,042	-	1,816,042
Reserves	**29,942,716**	**5**	**29,942,721**	**25,140,140**	**5**	**25,140,145**
Equity	**70,687,999**	**67**	**70,688,066**	**72,100,662**	**67**	**72,100,729**

The Parent Bank’s issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Parent Bank as well as to shares in profit distribution. As of June 30, 2015 the Parent Bank’s share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the par value of RSD 1 thousand per share.

Breakdown of the Parent Bank’s shares is provided in the table below:

	Share Count	
Share Type	**June 30, 2015**	**December 31, 2014**
Ordinary shares	16,817,956	16,817,956
Preferred convertible shares	-	-
Preferred shares	373,510	373,510
Balance as at December 31	17,191,466	17,191,466

The structure of the Parent Bank’s shareholders with ordinary (common stock) shares at June 30, 2015 was as follows:

Shareholder	**Share Count**	**% Interest**
Republic of Serbia	7,020,346	41.74
EBRD, London	4,109,440	24.43
IFC Capitalization Fund LP	1,706,810	10.15
Deg Deutche Investitions	772,850	4.60
Swedfund International Aktiebo	386,420	2.30
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
East Capital (lux)-Balkan Fund	245,106	1.46
Invej d.o.o., Beograd	230,000	1.37
Evropa osiguranje a.d., Beograd in bankruptcy	178,420	1.06
Kompanija Dunav osiguranje a.d., Beograd	171,380	1.02

9. EQUITY (Continued)

UniCredit bank, a.d., Srbija (*custody* account)	126,779	0.75
UniCredit bank, a.d., Srbija	126,587	0.75
Stankom co. d.o.o., Beograd	117,535	0.70
East Capital(LUX) Eastern Europe	88,408	0.53
Erste bank a.d., Novi Sad	86,601	0.51
Others (1,121 shareholders)	1,129,674	6.72
	16,817,956	100.00

The structure of the Parent Bank's shareholders with preferred shares at June 30, 2015 was as follows:

Shareholder	**Share Count**	**% Interest**
Pavlovic Jovica	85,140	22.79
Raiffeisen bank, a.d. (*custody* account)	34,990	9.37
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (624 shareholders)	235,290	63.00
	373,510	100.00

9.2. Cumulative foreign exchange gains on translation of foreign operations

	Cumulative foreign exchange gains on interests held in subsidiaries	**Cumulative foreign exchange gains on intragroup transactions**	**Cumulative foreign exchange gains on translation of the income statement profit from the average to the closing date exchange rate**	**Total**
Balance at January 1, 2014	1,315,086	66,789	59,200	1,441,075
Increase	366,709	3,266	4,992	374,967
Balance at December 31, 2014	1,681,795	70,055	64,192	1,816,042
Increase	(20,563)	3,473	(26)	(17,116)
Balance at June 30, 2015	**1,661,232**	**73,528**	**64,166**	**1,798,926**

10. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

10.1 Banks within the Group issue guarantees and letters of credit to vouch to third parties for the liability settlement by their clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

	June 30, 2015	**December 31, 2014**
Payment guarantees	5,554,117	5,547,353
Performance guarantees	6,993,845	8,138,838
Letters of credit	204,656	27,709
Acceptances of bills of exchange	2,061	27,185
	12,754,679	13,741,085

10. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (Continued)

The above listed amounts represent the maximum amount of loss that the Banks within the Group would incur as at reporting date in the event that none of their clients were able to settle their contractual obligations.

10.2 The breakdown of commitments is provided below:

	June 30, 2015	December 31, 2014
Unused portion of approved payment and credit card loan facilities and overdrafts	8,924,698	9,316,139
Irrevocable commitments for undrawn loans	6,805,708	8,066,911
Other irrevocable commitments	282,843	527,568
Other commitments per contracted value of securities	17,229	3,243,647
	16,030,478	21,154,265

The unused approved payment and credit card loan facilities and overdrafts include the related party transaction balance per business card of KomBank INVEST with the Parent Bank in the amount of RSD 200 thousand.

11. RELATED PARTY DISCLOSURES

The largest portions of the Parent Bank's voting shares are held by the Republic of Serbia (41.74% of ordinary shares) and EBRD, London (24.43% of ordinary shares). The Parent Bank has 3 subsidiaries: Komercijalna banka a.d., Budva, Komercijalna banka a.d., Banja Luka and KomBank Invest a.d., Beograd.

Legal entities are treated as related parties if one legal entity has control over another legal entity or exercises significant influence over financial and business decisions of another entity. Related parties are also entities under joint control of the same parent entity.

In the normal course of business, a number of banking transactions are performed within the Group. These include loans, deposits, investments in equity securities and derivative instruments, payment transfers and other banking operations.

Related party transactions were performed at arm's length.

12. EVENTS AFTER THE REPORTING PERIOD

Events after the Reporting Period Concerning the Parent Bank:

A) The selection of the President of the Bank's Executive Board (CEO) and of the member of the Bank's Executive Board for the position of CFO (Chief Financial Officer) is currently underway. The appointment is expected in the third quarter of 2015.

B) On 30.06.2015 the extraordinary session of the General Meeting of Bank's Shareholders was held at which the decision was rendered on removal and appointment of the chairperson and the members of the Bank's Board of Directors, representatives of the Republic of Serbia and independent members from the Republic of Serbia.

Member – chairperson and members of the Bank's Board of Directors are appointed for the term of four years. The Decision of the General Meeting of Bank's Shareholders came into effect on 31.07.2015 upon obtaining the consent of the National Bank of Serbia.

C) The General Meeting of Bank's Shareholders at its session held on 20.07.2015 passed the Decision on Adoption of Consolidated Financial Statements of Komercijalna Banka ad Beograd Group for the year 2014, with the opinion of the external auditor.

12. EVENTS AFTER THE REPORTING PERIOD

Events after the Reporting Period Concerning the Parent Bank (Continued):

D) On 27.07.2015 the Bank received a decision of the Appellate Court on the legal cause of the plaintiff Interexport Bankruptcy Estate from Belgrade. The decision places an obligation on Komercijalna banka to pay to the plaintiff, with reference to the arrangement with the National Bank of Cuba, an amount of CAD 2,995,475.00 with accrued interest. Upon the decision made by the second instance court the Bank has filed a request for revision before the Supreme Court of Cassation. The Supreme Court of Cassation shall make the final decision on this litigation.

Events after the Reporting Period Concerning Komercijalna banka a.d., Budva:

Komercijalna banka a.d., Budva carried out the blockade the Municipality of Budva debtor account for the amount of due debt of RSD 265,531 thousand (EUR 2.2 million) and carried out the collection in amount of RSD 172,446 thousand (EUR 1.4 million).

There were no other business events that are of importance to the Bank's position and results of its operations as at 30 June 2015.

Events after the Reporting Period Concerning Komercijalna banka a.d., Banja Luka:

Supervisory Board held its regular session on July 28, 2015. Supervisory Board made a decision on approval of semi-annual financial statements and the business report as at 30 June 2015.

There were no other business events that are of importance to the Bank's position and results of its operations as at 30 June 2015.

Events after the Reporting Period Concerning the Investment Fund Management Company KomBank INVEST a.d., Beograd:

There were no business events that are of importance to the Company's position and results of its operations as at 30 June 2015.

Unrealized Dividends

By Decision of the General Meeting of Parent Bank's Shareholders number 9200/2-3 dated 04.06.2015, the profit from 2014 has been distributed. By this distribution the total amount of RSD 1,962,751 thousand is allocated for dividend payments, as follows: for ordinary-voting shares RSD 1,934,065 thousand and for preference shares RSD 28,686 thousand. Dividend payments will be made in accordance with the provisions of the Law on Banks and Dividend Policy.

By the above Decision of the General Meeting of Parent Bank's Shareholders the amount of RSD 4,300,000 thousand is allocated to Bank's reserves for coverage of losses as per balance sheet assets.

13. EXCHANGE RATES

The official exchange rates for major currencies as determined in the interbank foreign exchange market and used in the translation of balance sheet components denominated in foreign currencies into dinars (RSD) as of June 30, 2015 and 2014 were as follows:

	NBS official spot exchange rate		NBS average exchange rate	
	June 30, 2015	2014	June 30, 2015	June 30, 2014
USD	107.7304	99.4641		
EUR	120.6042	120.9583	120.9618	115.6422
CHF	115.7541	100.5472		
BAM	61.6639	61.8450	61.8468	59.1269

In Belgrade,
on August 19, 2015

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Pursuant to Article 52 of the Law on Capital Market (RS Official Gazette No. 31/2011) it is stated the following:

STATEMENT

I hereby state that, according to my best knowledge, the semi-annual consolidated financial statements as at 30.06.2015 have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company, inclusive of its companies that are included in the consolidated financial statements.

KOMERCIJALNA BANKA AD BEOGRAD

Subsidiaries Department Director	Executive Director for Finance and Accounting
Gordana Zorić	Savo Petrović

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
1