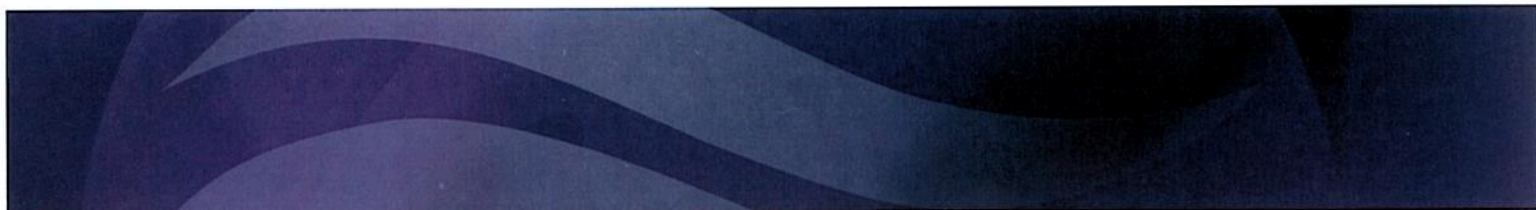




**KOMERCIJALNA BANKA**

Meni najbliža



# REPORT

ON THE THIRD QUARTER 2015, INCLUDING DATA FOR THE FIRST NINE MONTHS OF 2015.

BELGRADE, OCTOBER 2015



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**DECISION ON APPROVING THE FINANCIAL STATEMENTS**

Quarterly report for the third quarter 2015 is a true overview of progress and operating results of Komercijalna banka AD Beograd that were realized in the third quarter of 2015, as well as in the first nine months of 2015.



# 1. OVERVIEW OF KEY PERFORMANCE INDICATORS IN THE PERIOD BETWEEN 01.01.2015 AND 30.09.2015

## 1.1. Key Performance Indicators of the Bank

ITEM	30.09.15.	31.08.15.	31.07.15.	30.06.15.	31.03.15.	2014.	2013.
<b>BALANCE SHEET (000 RSD)</b>							
Balance-sheet assets	393,735,244	396,178,252	396,444,258	389,873,900	392,989,112	406,261,524	362,786,319
Off-balance-sheet operations	551,678,656	542,117,884	538,295,234	537,353,663	541,206,433	373,803,974	224,949,027
<b>RETAIL</b>							
Loans <sup>1</sup>	70,323,748	70,147,339	70,039,061	69,868,724	68,907,211	69,039,387	61,848,487
Deposits <sup>2</sup>	213,987,553	214,835,294	214,078,047	211,903,236	207,723,147	207,430,548	186,766,804
<b>CORPORATE</b>							
Loans	98,278,206	97,608,742	97,881,920	100,002,529	105,718,210	112,768,251	112,261,312
Deposits	53,221,154	53,753,345	53,015,313	50,155,326	54,196,334	57,437,462	42,131,535

ITEM	30.09.15.	31.08.15.	31.07.15.	30.06.15.	31.03.15.	2014.	2013.
<b>PROFIT AND LOSS ACCOUNT (000 RSD)</b>							
Profit before tax	1,304,707	1,236,582	1,024,500	696,310	207,932	4,757,589	4,588,375
Net interest income	10,297,943	9,275,231	8,083,074	6,903,087	3,460,981	13,298,586	12,929,237
Net fee income	3,618,446	3,193,224	2,804,608	2,372,074	1,143,900	4,717,757	4,565,148
<b>PROFITABILITY RATIOS</b>							
ROA	0.44%	0.47%	0.44%	0.35%	0.21%	1.25%	1.3%
ROE – on share capital	4.35%	4.63%	4.39%	3.48%	2.08%	11.88%	11.5%
ROE – on total capital	2.51%	2.67%	2.52%	2.00%	1.19%	7.05%	7.3%
Net interest margin on total assets	3.47%	3.51%	3.49%	3.48%	3.45%	3.49%	3.7%
Cost / income ratio	57.99%	57.50%	57.91%	58.09%	57.63%	59.65%	58.0%
Operating expenses (000 RSD) <sup>3</sup>	8,070,108	7,169,104	6,305,435	5,387,976	2,653,638	10,745,910	10,161,794
Net expense for indirect loan write-off and provisions (000 RSD)	3,727,046	3,541,696	3,271,654	2,918,607	1,391,544	2,725,389	3,220,075
FX risk ratio	9.24%	7.28%	5.26%	6.17%	6.50%	2.90%	2.12%
Liquidity ratio	3.50	3.53	3.49	3.19	3.49	2.84	3.45
Operating cash flows	7,451,080	6,914,056	5,763,243	5,180,475	2,797,806	7,121,339	6,824,563

ITEM	30.09.15.	31.08.15.	31.07.15.	30.06.15.	31.03.15.	2014.	2013.
<b>RATIO LOANS/DEPOSITS</b>							
Gross loans/deposits	69.07%	68.08%	68.10%	69.98%	73.60%	72.45%	77.8%
Net loans/deposits	61.55%	60.67%	60.71%	62.52%	66.68%	66.33%	72.0%
<b>CAPITAL (000 RSD)</b>							
CAR	21.21%	21.26%	21.55%	20.79%	17.38%	17.67%	19.0%
Number of employees	2,877	2,876	2,896	2,897	2,895	2,906	2,966
Assets per employee (000 EUR)	1,143	1,146	1,139	1,116	1,129	1,156	1,067
Assets per employee (000 RSD)	136,856	137,753	136,894	134,578	135,748	139,801	122,315

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

## 2. MACROECONOMIC OPERATING CONDITIONS IN THE PERIOD BETWEEN 01.01.2015 AND 30.09.2015

During the third quarter, as was the case in the two previous quarters, the year-on-year inflation was below the lower limit of allowed departure from the target. Deflationary effects came from low aggregate demand, small contribution from regulated prices and a great decrease in the price of primary products. Inflation is expected to return to somewhere near the lower limit of the target ( $4.0 \pm 1.5\%$ ) until the end of the current year due to a more lenient monetary policy and the factors that had deflationary effect, such as price of primary agricultural products.

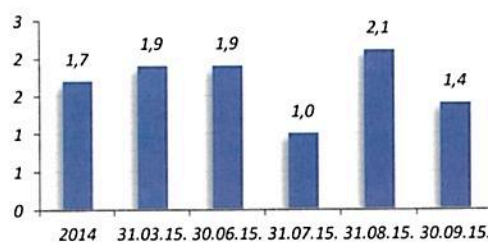
At the end of the third quarter this year the dinar appreciated negligibly against the euro. The exchange rate stabilized at the value of approx. 120 dinars to the euro. During the first three quarters the current year there was an appreciation of the dinar compared to the end of the previous year by 1.0%.

NBS reference rate was reduced to 5.0% on 10 September 2015. Reduction in the rate was carried out given that deflationary pressures were still present as a result of aggregate demand, low prices on foreign market of primary products. With the monetary policy measures that were taken, including the reduction in the required reserve as of September, during the next six consecutive calculation periods by 1 percentage point, the effects of quantitative easing by the ECB, anticipated second successful revision of the arrangement with IMF, effect of regulated prices (increase in the price of electricity), a positive investors' opinion is expected regarding investments in Serbia.

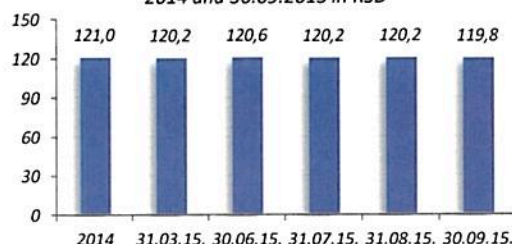
The banking sector in the Republic of Serbia recorded a slight increase in balance-sheet assets at the end of the second quarter (0.5%), compared to the previous year when a more substantial growth was realized (4.3%). Such oscillations in the performance of the sector are understandable given the attendant increase in credit risk.

During the second quarter 2015 the Bank maintained its share in the total balance-sheet assets of the banking sector of approx 13%. During the observed period the Bank's share of the assets of the banking sector increased by 3 percentage points.

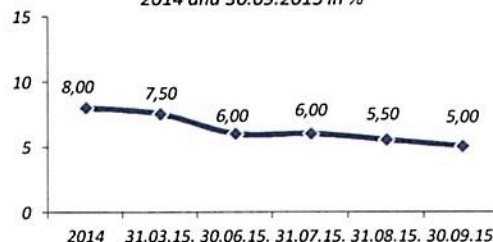
Year-on-year inflation rate in the period between 2014 and 30.09.2015 in %



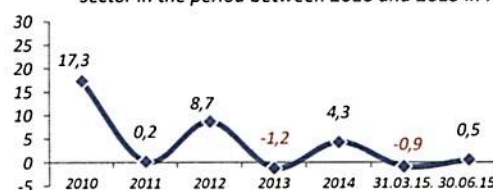
RSD/EUR exchange rate between 2014 and 30.09.2015 in RSD



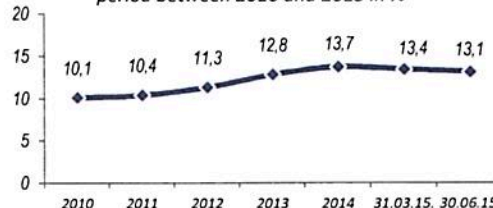
NBS key-policy rate between 2014 and 30.09.2015 in %



Trends in balance-sheet assets in the banking sector in the period between 2010 and 2015 in %



Trends in the Bank's market share in the period between 2010 and 2015 in %



### 3. KEY PERFORMANCE INDICATORS OF THE BANK IN THE PERIOD BETWEEN 01.01.2015 AND 30.09.2015

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Deposits	213,987,553	214,835,294	214,078,047	211,903,236	207,723,147	207,430,548	186,766,804
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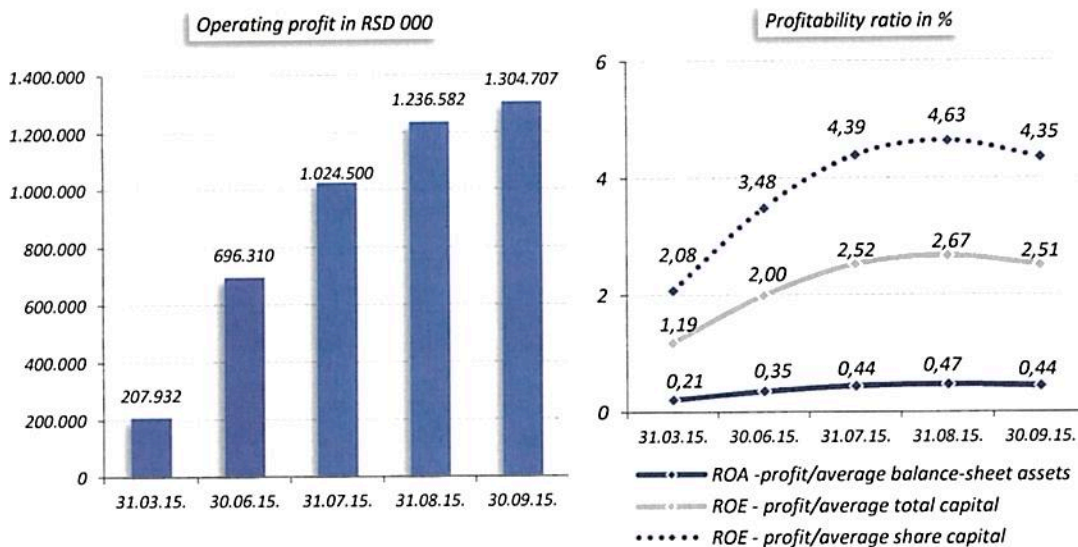
As of 30.09.2015 the Bank's balance-sheet assets were 393,735.2 million dinars and had been reduced by 12,526.3 million dinars or 3.1% compared to the end of the previous year.

Off-balance sheet assets increased by 47.6% in 2015 and amounted to 551,678.6 million dinars at the end of September this year.

In the first nine months of 2015 the Bank disbursed loans to clients in the amount of 173,275.3 million dinars which is below the performance achieved at the end of 2014 (-11.0%). In the same period, the Bank recorded a decrease in deposits in the amount of RSD 11,929.6 million or 4.1%. In the structure of this change, retail deposits increased by RSD 6,557.0 million, while deposits from legal entities decreased in the amount of RSD 18,486.6 million. These changes include also the effect of dinar appreciation against the euro (1.0%) and depreciation against the Swiss franc (-8.9%).

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<b>PROFITABILITY RATIOS</b>							
ROA	0.44%	0.47%	0.44%	0.35%	0.21%	1.25%	1.33%
ROE – on share capital	4.35%	4.63%	4.39%	3.48%	2.08%	11.88%	11.46%
ROE – on total capital	2.51%	2.67%	2.52%	2.00%	1.19%	7.05%	7.33%
Net interest margin on total assets	3.47%	3.51%	3.49%	3.48%	3.45%	3.49%	3.70%
Cost / income ratio	57.99%	57.50%	57.91%	58.09%	57.63%	59.65%	58.00%
Operating expenses (000 RSD) <sup>4</sup>	8,070,108	7,169,104	6,305,435	5,387,976	2,653,638	10,745,910	10,161,794
Net cost of indirect loan write off and provisions (000 RSD)	3,727,046	3,541,696	3,271,654	2,918,607	1,391,544	2,725,389	3,220,075
FX risk ratio	9.24%	7.28%	5.26%	6.17%	6.50%	2.90%	2.12%
Liquidity ratio	3.50	3.53	3.49	3.19	3.49	2.84	3.45
Operating cash flows	7,451,080	6,914,056	5,763,243	5,180,475	2,797,806	7,121,339	6,824,563

<sup>4</sup> Operating expenses include cost of salaries, tangible and intangible operating expenses



Inefficiency and illiquidity of local businesses, especially large systems, and deterioration and change in the loan portfolio have resulted in lower y-o-y profit of the Bank in the first nine months this year (-63.2%). The Bank's realized profit in the period between 01.01. and 30.09.2015 was RSD 1.3 bn which is a y-o-y decrease of RSD 2,244.2 million. Realized operating loss in the first nine months of 2015 resulted in return on total capital of 2.5% and return on share capital of 4.4%.

A decisive effect on the level of profit in the first three quarters this year came from net expenses for indirect loan write-off and provisions for off-balance-sheet items (RSD 3,727.0 million) which is RSD 1,588.6 million or 74.3 % above the realized figure in the same period last year, as well as from the increase in other expenses in the amount of RSD 1,200.1 million or 27.9%. Of all the positive effects, it is important to stress the increase in net fee income in the amount of RSD 201.8 million (5.9%).

Decrease in the volume of operations also decreased the Bank's assets per employee ratio. In the first nine months of 2015 assets per employee decreased from RSD 139.8 million (31.12.2014), to RSD 136.9 million as of 30.09.2015.

At the end of the third quarter 2015 the cost income ratio (CIR) was 57.99%, and at the end of 2014 this ratio stood at 59.65%.

#### 4. BALANCE SHEET AS OF 30.09.2015

##### 4.1. The Bank's Assets as of 30.09.2015

(In 000 RSD)

No.	BALANCE-SHEET ITEM	30.09.2015	31.12.2014	INDICES	% OF SHARE AS OF 30.09.2015
1	2	3	4	5=(3:4)*100	6
<b>ASSETS</b>					
1.	Cash and assets with the central bank	58,748,139	68,547,389	85.70	14.92
2.	Pledged financial assets	-	-	-	-
3.	Financial assets at fair value through P&L intended for trade	882,104	121,634	725.21	0.22
4.	Financial assets initially recognised at fair value through P&L	-	-	-	-
5.	Financial assets available for sale	117,195,651	95,481,249	122.74	29.77
6.	Financial assets held to maturity	45,476	51,442	88.40	0.01
7.	Loans and receivables from banks and other financial organisations	23,453,430	34,737,605	67.52	5.96
8.	Loans and receivables from customers	172,337,021	185,377,035	92.97	43.77
9.	Change in fair value of hedged items	-	-	-	-
10.	Receivables from financial derivatives intended for hedging	-	-	-	-
11.	Investment in affiliations and joint ventures	-	-	-	-
12.	Investment in subordinate entities	5,480,888	5,480,888	100.00	1.39
13.	Intangible assets	244,085	405,774	60.15	0.06
14.	Property, plant and equipment	6,164,299	6,329,077	97.40	1.57
15.	Investment properties	2,800,974	2,581,144	108.52	0.71
16.	Current tax assets	52,930	73,835	71.69	0.01
17.	Deferred tax assets	127,530	-	-	0.03
18.	Fixed assets intended for sale and assets from discontinued operations	64,988	84,227	77.16	0.02
19.	Other assets	6,137,729	6,990,225	87.80	1.56
<b>TOTAL ASSETS (from 1 to 19)</b>		<b>393,735,244</b>	<b>406,261,524</b>	<b>96.92</b>	<b>100.00</b>

At the end of the third quarter 2015 the Bank's balance-sheet assets decreased by RSD 12,526.3 million or 3.1%.

Loans and receivables from customers (according to the new balance-sheet scheme) were reduced by RSD 13,040.0 million or 7.0%. As of 30.09.2015 the total loans and receivables from customers and banks amounted to RSD 195,790.5 million which accounts for 49.7% of the total balance-sheet assets.

During the first nine months of 2015 the item "cash and funds with the central bank" recorded a decrease of 14.3%, primarily as a result of decrease in funds on the drawing account in the amount of RSD 5,060.5 million and FX required reserve of RSD 3,733.8 million.

The item "financial assets available for sale" grew by RSD 21,714.4 million compared to the end of the previous year or 22.7%. The increase was recorded also in the position "financial assets through income statement intended for trade" in the amount of RSD 760.5 million or 625.2%. An increase was also recorded in the item "investment property" in the amount of RSD 219.8 million or 8.5%, as a result of reclassification of a portion of assets obtained through foreclosure.



#### 4.2. Liabilities of the Bank as of 30.09.2015

No.	BALANCE-SHEET ITEM	30.09.2015	31.12.2014	INDICES	(In 000 RSD)
					% OF SHARE AS OF 30.09.2015
1	2	3	4	5= (3:4)*100	6
<b>1</b>	<b>LIABILITIES</b>				
1.	Financial liabilities at fair value through P&L intended for trade	-	-	-	-
2.	Financial liabilities initially recognised at fair value through P&L	-	-	-	-
3.	Liabilities from financial derivatives intended for hedging	-	-	-	-
4.	Deposits and other liabilities to banks, other financial organisations and the central bank	17,966,680	23,743,018	75.67	4.56
5.	Deposits and other liabilities to other customers	293,253,923	301,954,911	97.12	74.48
6.	Change in fair value of hedged items	-	-	-	-
7.	Issued treasury securities and other borrowed assets	-	-	-	-
8.	Subordinated debt	6,054,672	6,036,680	100.30	1.54
9.	Provisions	1,771,331	1,640,595	107.97	0.45
10.	Liabilities for assets intended for sale and assets from discontinued operations	-	-	-	-
11.	Current tax liabilities	-	-	-	-
12.	Deferred tax liabilities	277,936	150,407	184.79	0.07
13.	Other liabilities	5,710,703	3,189,109	179.07	1.45
<b>14.</b>	<b>TOTAL OBLIGATIONS (from 1 to 13)</b>	<b>325,035,245</b>	<b>336,714,720</b>	<b>96.53</b>	<b>82.55</b>
	<b>CAPITAL</b>				
15.	Share capital	40,034,550	40,034,550	100.00	10.17
16.	Treasury shares	-	-	-	-
17.	Profit	1,456,911	6,755,855	21.57	0.37
18.	Loss	-	-	-	-
19.	Reserves	27,208,538	22,756,399	119.56	6.91
20.	Unrealized losses	-	-	-	-
21.	Non-controlling equity stakes	-	-	-	-
<b>22.</b>	<b>TOTAL CAPITAL (15-16+17-18+19-20+21)</b>	<b>68,699,999</b>	<b>69,546,804</b>	<b>98.78</b>	<b>17.45</b>
	<b>TOTAL LIABILITIES</b>	<b>393,735,244</b>	<b>406,261,524</b>	<b>96.92</b>	<b>100.00</b>

At the end of September 2015, total commitments amounted to 325,035.2 million dinars, and account for 82.5% of total liabilities (31.12.2014: 82.9%). At the same time, total capital, with 68,700.0 million dinars participates in total liabilities with 17.5% (31.12.2014: 17.1%). Total liabilities decreased compared to the previous year by 11,679.5 million dinars, or 3.5%, while total capital decreased by 846.8 million dinars or 1.2%.

Item "Deposits and Liabilities to Customers" decreased in the reporting period to 8,701.0 million dinars or 2.9%, while the item "deposits and liabilities to banks" decreased compared to the previous year end by 5,776.3 million dinars or 24.3%.

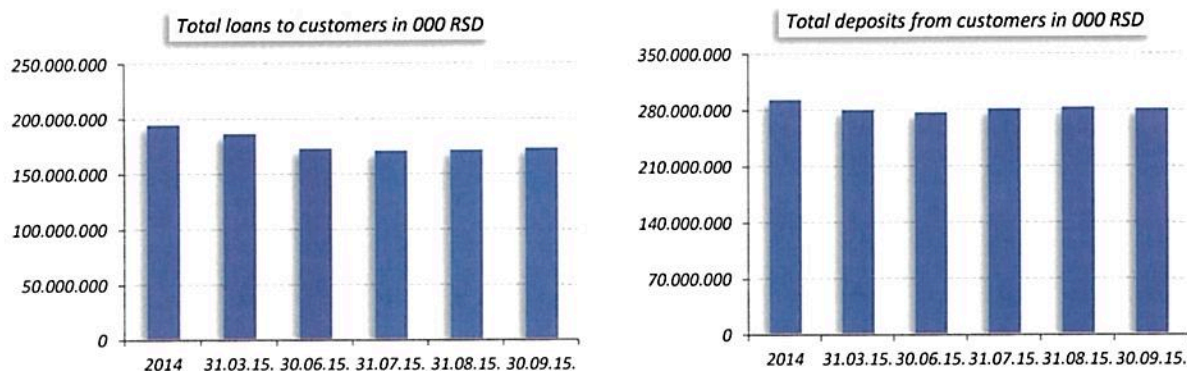
The item "other liabilities" increased by 2,521.6 million dinars or 79.1%. Significant increase compared to the previous year end was recorded in the item of "reserves" amounting to 4,452.1 million dinars or 19.6%, of which

the largest portion relates to the distribution of profit from 2014 and previous years in other reserves from profit (4,300.0 million dinars). The subordinated loan of 50.0 million euros was withdrawn in late 2011 in order to increase the regulatory capital.

In the first nine months of this year, liabilities arising from the lines of credit in RSD equivalent of 3,092.2 million dinars decreased, so that the balance of the underlying liabilities as of 30.09.2015 amounted to 25,927.6 million dinars.

In the structure of balance sheet liabilities, total deposits and other liabilities to banks and customers amounted to 311,220.6 million dinars, which makes 79.0% of total balance sheet liabilities, recording at the same time a decrease compared to the beginning of the year of 14,477.3 million dinars or 4.4%.

#### 4.3. Loans to Customers and Deposits from Customers as of 30.09.2015



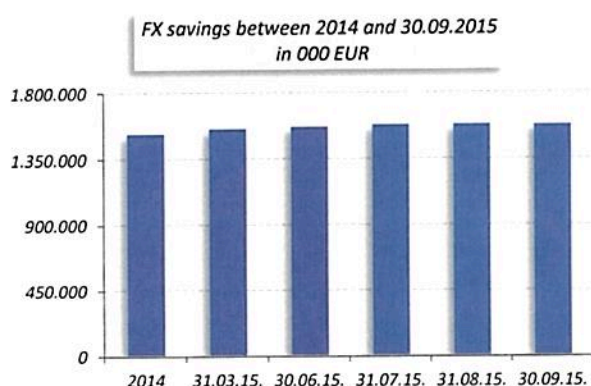
The most important asset category "loans and advances to customers" (other loans and receivables excluded), recorded a decrease of 21,385.8 million dinars (-11.0%). At the end of the third quarter of 2015, the amount of loans to customers was under the significant influence of corporate loans, which reached the amount of 98,278.2 million (-12.8%), while retail loans reached a level of 70,323.7 million dinars, which represents an increase of 1,284.4 million dinars or 1.9%. As at 30.09.2015, total loans to customers and banks amounted to 173,275.3 million dinars.

(In 000 RSD)				
No.	ITEM	BALANCE AS OF 30.09.2015	BALANCE AS OF 31.12.2014	INDEX
1	2	3	4	5=(3:4)*100
I	<b>LOANS TO CUSTOMERS (1. +2. +3.)</b>	<b>173,275,329</b>	<b>194,661,130</b>	<b>89.01</b>
1.	Corporate	98,278,207	112,768,251	87.15
2.	Retail	70,323,747	69,039,387	101.86
3.	Banks and financial organisations	4,673,375	12,853,493	36.36
II	<b>DEPOSITS FROM CUSTOMERS (1. +2. +3.)</b>	<b>281,536,504</b>	<b>293,466,122</b>	<b>95.93</b>
1.	Corporate	53,221,154	57,437,462	92.66
2.	Retail	213,987,553	207,430,548	103.16
3.	Banks and financial organisations	14,327,798	28,598,113	50.10

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

At the end of Q3 2015, deposits from customers reached the amount of 281,536.5 million dinars and recorded a decrease of 4.1%. Change in deposits (excluding other liabilities) in the first nine months of the year, was largely under the influence of the decline in deposits from banks and financial institutions (RSD 14,270.3 million), a decrease in corporate deposits (equivalent of RSD 4,216.3 million), and increase in retail

deposits (equivalent 6,557.0 million RSD). At the end of the third quarter and within the scope of these changes, retail foreign currency savings increased by 58.6 million euros (3.8%) compared to the previous year end.



Enjoying a reputation as a safe and stable bank in the Serbian market, in the reporting period KB managed to increase foreign currency saving deposits by 58.6 million euros or 3.8%.

Foreign currency savings increased in the first nine months of 2015 and reached the amount of 1,580.8 million euros.

The confidence of depositors provided the Bank to retain the first place in the banking sector of the Republic of Serbia according to the level of raised FX savings, image and recognition.

#### 4.4. Commissioning and Off-Balance Sheet Items in 2015

(In 000 RSD)

No.	ITEM	BALANCE AS OF 30.09.2015	BALANCE AS OF 31.12.2014	INDEX
1	2	3	4	5=(3.4)*100
<b>I</b>	<b>ACTIVITIES FOR AND ON BEHALF OF THIRD PARTIES</b> (commission activities)	<b>5,377,776</b>	<b>5,500,690</b>	<b>97.77</b>
<b>II</b>	<b>CONTINGENT LIABILITIES</b>	<b>27,432,366</b>	<b>29,774,694</b>	<b>92.13</b>
1.	Payable guarantees	5,041,908	4,767,131	105.76
2.	Performance bonds	6,509,057	7,832,355	83.10
3.	Bill guarantees and acceptances	2,046	27,185	7.53
4.	Undrawn commitments	15,411,848	16,376,020	94.11
5.	Other off-balance-sheet items that might result in payment	279,682	744,294	37.58
6.	Uncovered letters of credit	187,825	27,709	677.85
<b>III</b>	<b>OFF-BALANCE-SHEET ITEMS THAT ARE NOT CLASSIFIED</b>	<b>518,868,513</b>	<b>338,528,590</b>	<b>153.27</b>
1.	FX savings bonds	2,808,325	3,811,270	73.68
2.	Securities in the depository	231,882,031	204,783,314	113.23
3.	Other off-balance-sheet items	284,178,158	129,934,006	218.71
	<b>TOTAL (I+II+III)</b>	<b>551,678,656</b>	<b>373,803,974</b>	<b>147.59</b>

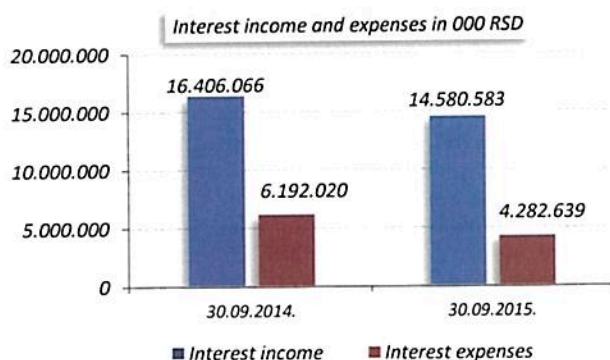
As of 30.09.2015, the contingent off-balance sheet liabilities totalled 27,432.4 million dinars, which represents a decrease of 2,342.3 million or 7.9% compared to the previous year end, due to the significant reduction of "performance guarantees" and "unused commitments".

## 5. INCOME STATEMENT FOR THE PERIOD 01.01.2015 TO 30.09.2015

(In 000 RSD)

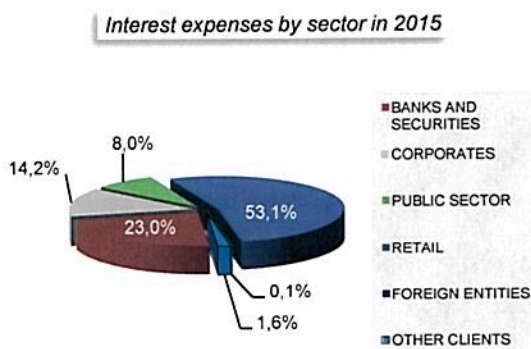
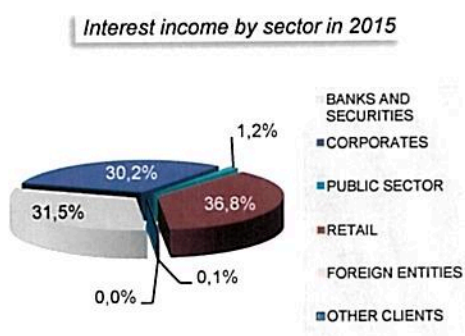
No.	BALANCE-SHEET ITEM	30.09.2015	30.09.2014	INDICES
1	2	3	4	5=(3:4)*100
<b>OPERATING INCOME AND EXPENSES</b>				
1.1.	Interest income	14,580,583	16,406,066	88.87
1.2.	Interest expenses	4,282,639	6,192,020	69.16
<b>1.</b>	<b>Net interest income/expenses</b>	<b>10,297,944</b>	<b>10,214,046</b>	<b>100.82</b>
2.1.	Fee and commission income	4,428,391	4,112,999	107.67
2.2.	Fee and commission expenses	809,945	696,372	116.31
<b>2.</b>	<b>Net fee and commission income/expenses</b>	<b>3,618,446</b>	<b>3,416,627</b>	<b>105.91</b>
3.	Net gains/loss from financial assets intended for trade	4,337	4,266	101.66
4.	Net gains/loss from hedging	-	-	-
5.	Net gains/loss from financial assets initially recognised at fair value through income statement	-	-	-
6.	Net gains/loss from financial assets available for sale	3,363	43,776	7.68
7.	Net income/loss from exchange rate differentials and the effects of contracted currency clause	-28,767	-132,324	21.74
8.	Net gains/loss from investment in affiliations and joint ventures	-	-	-
9.	Other operating income	344,375	210,972	163.23
10.	Net income/expenses from decreased impairment of financial assets and off-balance-sheet items that bear credit risk	-3,727,046	-2,138,410	174.29
<b>11.</b>	<b>TOTAL NET OPERATING INCOME</b>	<b>10,512,652</b>	<b>11,618,953</b>	<b>90.48</b>
<b>12.</b>	<b>TOTAL NET OPERATING EXPENSES</b>	<b>-</b>	<b>-</b>	<b>-</b>
13.	Cost of salaries, allowances and other personnel expenses	3,087,515	3,129,110	98.67
14.	Depreciation cost	610,814	631,492	96.73
15.	Other expenses	5,509,616	4,309,476	127.85
<b>16.</b>	<b>PROFIT BEFORE TAX</b>	<b>1,304,707</b>	<b>3,548,875</b>	<b>36.76</b>
<b>17.</b>	<b>LOSS BEFORE TAX</b>	<b>-</b>	<b>-</b>	<b>-</b>
18.	Profit tax	-	-	-
19.	Profit from deferred taxes	-	-	-
20.	Loss from deferred taxes	-	-	-
<b>21.</b>	<b>PROFIT AFTER TAX</b>	<b>1,304,707</b>	<b>3,548,875</b>	<b>36.76</b>
<b>22.</b>	<b>LOSS AFTER TAX</b>	<b>-</b>	<b>-</b>	<b>-</b>
23.	Net profit from discontinued operations	-	-	-
24.	Net loss from discontinued operations	-	-	-
<b>25.</b>	<b>RESULT FOR THE PERIOD – PROFIT</b>	<b>1,304,707</b>	<b>3,548,875</b>	<b>36.76</b>
<b>26.</b>	<b>RESULT FOR THE PERIOD - LOSS</b>	<b>-</b>	<b>-</b>	<b>-</b>
27.	Profit attributable to the parent entity	-	-	-
28.	Profit attributable to the owners with no controlling rights	-	-	-
29.	Loss attributable to the parent entity	-	-	-
30.	Loss attributable to the owners with no controlling rights	-	-	-
31.	Earnings per share	-	-	-
32.	Basic earnings per share	-	-	-
33.	Diluted earnings per share	-	-	-

## 5.1. Interest Income and Expenses

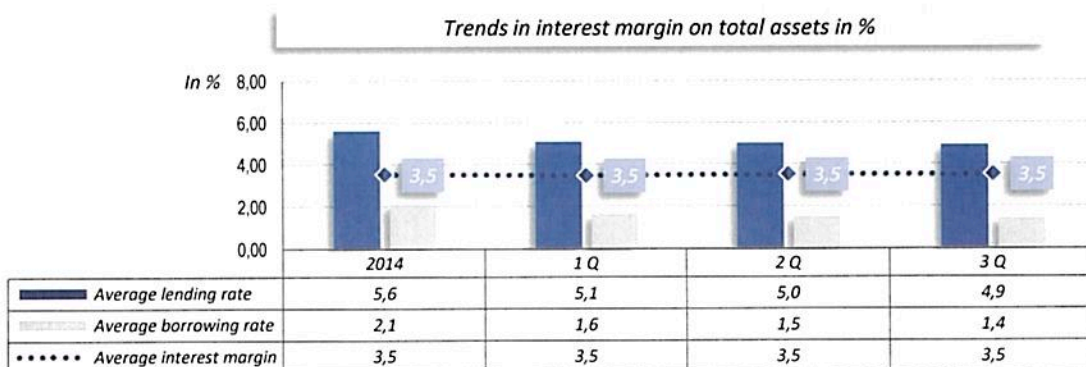


Interest income amounted to 10,297.9 million dinars, which, compared to the same period last year, was an increase of 83.9 million dinars, or 0.8%.

Compared to last year, interest income in the third quarter of the current year decreased by 1,825.5 million dinars or 11.1%, while interest expenses decreased by 1,909.4 million dinars or 30.8%.

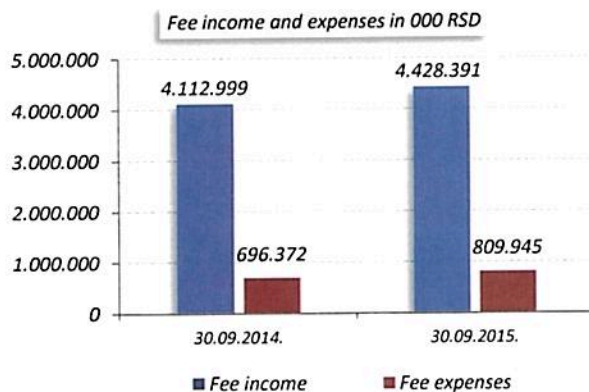


Interest from retail transactions had the largest share in the structure of interest income (5,369.6 million dinars or 36.8%). Within the interest expenses, interest on retail deposits also dominate (2,274.8 million dinars or 53.1%), largely as a result of the interest expenses resulting from raised FX savings.



At the end of the Q3 2015, the average lending interest rate was 4.9%, and the average debit interest rate was 1.4%, so that the average interest margin of the Bank amounted to 3.5% in the observed period of 2015.

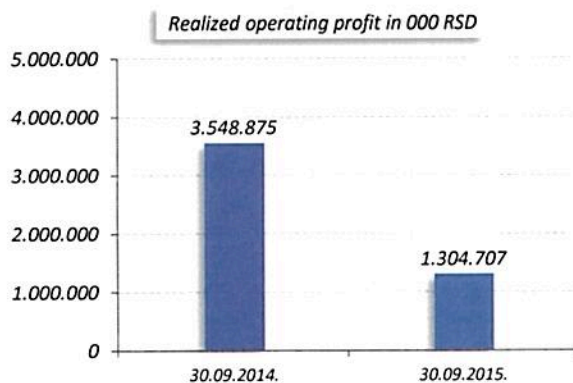
## 5.2. Fee Income and Expenses



Compared to last year, fee and commission income for banking services are higher by RSD 315.4 million, or by 7.7%, while the fee and commission expenses are higher by RSD 113.6 million, or by 16.3%.

Fee and commission income for the first nine months of 2015 amounts to RSD 3,618.4 million and is higher by 5.9% than in the same period last year.

## 5.3. Realized Operating Profit



The third quarter of 2015 is also characterized by unpredictable macroeconomic business conditions, instability in foreign financial markets, and slight recovery of domestic manufacturing industry. The Bank realized over the period from January 01<sup>st</sup> until September 30<sup>th</sup>, 2015 the operating profit in the amount of RSD 1,304.7 million, which is a reduction of RSD 2,244.2 million compared to the same period last year.

This amount of realized operating profit provided the Bank, in the first nine months of 2015, the return on total capital of 2.5%, and/or return on share capital of 4.4%.

### PERFORMANCE INDICATORS PRESCRIBED BY THE LAW ON BANKS

No.	ITEM	PRESCRIBED	30.09.2015.	2014.
1.	CAPITAL ADEQUACY RATIO (NET CAPITAL / CREDIT RISK + OPERATING RISKS + OPEN FX POSITION)	MIN. 12%	21.21%	17.67%
2.	RATIO OF INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR AND IN FIXED ASSETS	MAX. 60%	24.44%	27.60%
3.	LARGE EXPOSURE RATIO	MAX. 400%	114.35%	160.59%
4.	FX RISK RATIO	MAX. 20%	9.24%	2.90%
5.	LIQUIDITY RATIO	MIN. 0.8	3.50	2.84

## 6. DESCRIPTION OF MAIN RISKS AND THREATS TO WHICH THE ORGANIZATION IS EXPOSED

Detailed review of main risks and threats to which the Bank is exposed in the upcoming period, is included in the chapter Risk Management, Note to Financial Statements.

## 7. ALL MAJOR TRANSACTIONS WITH RELATED PARTIES

As of 30.09.2015 the parties related to Bank are as follows:

1. Komercijalna banka a.d. Budva, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d. Beograd,
4. four legal entities (Lasta doo, Viš trade doo, Menta doo, Meplast doo) and a number of private individuals, according to provisions of the Article 2 of the Law on Banks, in part that regulates the term „parties related to the bank “.

Total exposure to parties related to the Bank as of 30.09.2015 amounted to RSD 751,985 thousand, which, when compared to the capital of RSD 36,778,722 thousand represented 2.04% (maximum value of total loans and advances to all the parties related to the Bank, according to the Law on Banks, equals 25% of the capital).

The largest part of the exposure to the parties related to the Bank as of 30.09.2015 is the amount of RSD 594,004 thousand, or 1.62% of Bank's capital and it refers to loans and advances to private individuals who are the parties related to the Bank.

In accordance with the Article 37 of the Law on Banks, the Bank did not approve to the parties related to the Bank the loans under the terms and conditions that are more favourable than the terms and conditions approved to other parties that are not related to the Bank.

Detailed review of the Bank's relation with the related parties is provided in the Item Related Parties, Note to Financial Statements.

## 8. BASIC INFORMATION ON THE IMPLEMENTATION OF THE BUSINESS PLAN FOR THE YEAR 2015

Implementation of the Strategy and Business Plan, in the first nine months of 2015, has been carried out within the following macroeconomic business conditions, of which we particularly point out to:

-GDP growth was recorded of 2.0% in Q3 2015, compared to the same period last year (SORS), the plan for the whole year is GDP growth of 0.5% (MF, NBS),

-stable movement of RSD exchange rate around the level of RSD 120 for 1 EUR (RSD exchange rate against the EURO – planned at the of the current year: 1 EUR = RSD 125.00 (KB), and realized exchange rate as of 30.09.2015: 1 EUR = RSD 119.75,

-inflation rate (y-o-y rate, September 2015/September 2014: +1.4%) fluctuates and is currently below the lower limit of the target rate (4.0±1.5%).

In addition to the above, the banks' operations in the first nine months of 2015 were also significantly affected by still present crisis of public debt in certain countries of Eurozone, instability in the international financial market,

postponement in increasing the key policy rate by FED, application of measures of fiscal consolidation and support of IMF, reluctance of foreign investors to invest in Serbia (EUR 1,055.7 million for the first eight months of 2015<sup>5</sup>), reduction in disbursed loans, particularly in corporate sector (RSD -17.4 bn<sup>6</sup>), reduction in consolidated deficit (RSD -44.4 bn<sup>7</sup>, January-August 2015) compared to the same period last year, the growth of public debt (72.0% of GDP<sup>8</sup>). Country risk premium measured by EMBI index was relatively stable in Q2 (276.1 b.p)<sup>9</sup>, during the month of July it was reduced by 14.3 b.p., compared to Q1 this year. The recovery of economic activity continued, as did the recovery of export-oriented industries, particularly manufacturing industry, which was fuelled by the growth in external demand, by mobilizing all the capacities in the mining and energy sector after last year's floods and by the positive trends in the construction industry.

### 8.1. Planned and Realized Balance Sheet Values for the Third Quarter of 2015

Total balance sheet assets of the Bank, at the end of Q3 of 2015 amounts to RSD 393,735.2 million and compared to the planned value for the same period, they are lower by RSD 2,324.9 million, or -0.6%. Significant positive deviations between realized and planned values are recorded in the position „cash and cash equivalents“, with realized value being higher by RSD 9,309.4 million, or +27.7% on the balance sheet date. Likewise, the position „securities“, realized the growth of RSD 25,491.0 million (+27.5%) compared to the planned value. Decline in realized value compared to the planned value, has been particularly recorded in the position „loans and deposits to customers“(without other loans and advances and receivables). This position recorded a drop by RSD 20,138.2 million (-10.4%), as has the position „callable deposits and loans “- the reduction amounts to RSD 17,347.0 million (-34.5%).

In the structure of balance sheet liabilities, the positive deviation between realized and planned values is recorded in the position deposits (RSD 5,133.8 million, as observed by previous balance sheet format), which was mainly contributed by the growth of banks' deposits and other financial organizations (RSD 3,955.0 million), as well as by the growth of the companies' deposits (RSD 2,422.5 million), while the negative deviation is recorded in the position „other liabilities “ – reduction in the amount of RSD 5,804.9 million. The movement in value of RSD - appreciation (1.0% against EUR), increased to certain extent the deviations between realized and planned values.

*Realized and planned positions of assets and liabilities in balance sheet as of 30.09.2015 have the following values:*

No.	ITEM	(In RSD m)		
		Planned 30.09.2015	Realized 30.09.2015	Performance of plan in %
1	2	3	4	5=4/3
<b>ASSETS</b>				
1.	Cash and cash equivalents	33,606	42,916	127.70
2.	Callable deposits and loans	50,351	33,004	65.55
3.	<b>Loans and deposits to customers (3.1.+3.2.+3.3.)</b>	<b>193,413</b>	<b>173,275</b>	89.59
3.1.	Companies	107,500	98,278	91.42
3.2.	Retail	74,273	70,324	94.68
3.3.	Banks and financial organisations	11,641	4,673	40.15
4.	Securities	92,632	118,123	127.52
5.	Other assets	26,057	26,417	101.38
6.	<b>TOTAL ASSETS (1.+2.+3.+4.+5.)</b>	<b>396,060</b>	<b>393,735</b>	99.41

<sup>5</sup> NBS, Balance of Payments of the Republic of Serbia, January –August 2014 - 2015, in EUR million

<sup>6</sup> NBS, Consolidated Balance Sheet of banks, October 20<sup>th</sup>, 2015

<sup>7</sup> Ministry of Finance RS, Current macroeconomic movements, September 2015

<sup>8</sup> Ministry of Finance RS, Current macroeconomic movements, September 2015

<sup>9</sup> NBS, Table 1 Key macro-prudential indicators of the Republic of Serbia –T2 2015



No.	ITEM	Planned 30.09.2015	Realized 30.09.2015	Performance of plan in %
1	2	3	4	5=4/3
	<b>LIABILITIES</b>			
1.	Deposits	276,403	281,537	101.86
1.1.	Corporates	50,799	53,221	104.77
1.2.	Retail	215,231	213,988	99.42
1.3.	Banks and financial organisations	10,373	14,328	138.13
2.	Other liabilities	49,304	43,499	88.23
3.	<b>Total liabilities (1.+2.)</b>	<b>325,706</b>	<b>325,035</b>	<b>99.79</b>
4.	<b>Total capital</b>	<b>70,354</b>	<b>68,700</b>	<b>97.65</b>
5.	<b>TOTAL LIABILITIES (3.+4.)</b>	<b>396,060</b>	<b>393,735</b>	<b>99.41</b>

## 8.2. Planned and Realized Values of Income Statement for the period 01.01-30.09.2015

No.	ITEM	Planned 01.01.-30.09.2015	Realized 01.01.-30.09.2015	(In RSD m)
				Performance of the plan in %
1	2	3	4	5=4/3
1.1.	Interest income	15,508	14,581	94.02
1.2.	Interest expenses	5,364	4,283	79.84
1.	<b>Interest gains (1.1.-1.2.)</b>	<b>10,144</b>	<b>10,298</b>	<b>101.52</b>
2.1.	Fee and commission income	4,359	4,428	101.60
2.2.	Fee and commission expenses	832	810	97.38
2.	<b>Fee and commission gains (2.1. -2.2.)</b>	<b>3,527</b>	<b>3,618</b>	<b>102.60</b>
3.	Net exchange rate gains and revaluation (currency clause)	75	-29	-38.36
4.	Net other operating income and expenses	257	-786	-306.34
5.	Net expenses/income from indirect loan write-off and provisions	-2,400	-3,727	155.29
6.	Operating expenses	8,039	8,070	100.38
7.	<b>OPERATING PROFIT</b>	<b>3,563</b>	<b>1,305</b>	<b>36.62</b>

In positions of Income Statement, the positive deviation relative to the plan is recorded in the position Interest income (realized value is higher by RSD 154.2 million) as is Fee and Commission Income (realized value is higher than planned by RSD 91.7 million).

In the period from January 1<sup>st</sup> until September 30<sup>th</sup>, 2015, the Bank made the profit before tax in the amount of RSD 1,304.7 million, which makes for 36.6% of the planned value for the same period. The key impact on the amount of realized profit had the unplanned operating expenses, net expenses of indirect write-offs of loans and provisions for off-balance sheet items. Net expenses arising from impairment of financial assets and credit risk-bearing off-balance sheet items amounted to RSD 3,727.0 million for the period from January 1<sup>st</sup> until September 30<sup>th</sup>, 2015, which is by RSD 1,327.0 million or 55.3 % higher than the plan for the reported period.

Belgrade, October 2015

**KOMERCIJALNA BANKA AD BEOGRAD**

Director of Financial Controlling,  
Planning and Budgeting Division

Executive Director for Accounting

Vasimir Ismailović

Savo Petrović



The image shows two handwritten signatures in black ink. The signature on the left is for Vasimir Ismailović and the one on the right is for Savo Petrović. Both signatures are fluid and cursive.



## BALANCE SHEET

on 30.09.2015.

(in RSD thousand)

POSITION	ADP code	Amount	
		Current year amount	Previous year amount
1	2	3	4
<b>ASSETS</b>			
Cash and balances with central banks	0001	58.748.139	68.547.389
Pledged funds	0002	-	-
Financial assets at fair value through profit or loss held for trading	0003	882.104	121.634
Financial assets initially recognized at fair value through profit or loss	0004	-	-
Financial assets available for sale	0005	117.195.651	95.481.249
Financial assets held to maturity	0006	45.476	51.442
Loans and advances to banks and other financial institutions	0007	23.453.430	34.737.605
Loans and advances to clients	0008	172.337.021	185.377.035
Changes in fair value of items that are the subject of hedging	0009	-	-
Receivables from financial derivatives held for hedging	0010	-	-
Investments in associates and joint ventures	0011	-	-
Investments in subsidiaries	0012	5.480.888	5.480.888
Intangible assets	0013	244.085	405.774
Property, plant and equipment	0014	6.164.299	6.329.077
Investment property	0015	2.800.974	2.581.144
Current tax assets	0016	52.930	73.835
Deferred tax assets	0017	127.530	-
Non-current assets held for sale and assets of discontinued operations	0018	64.988	84.227
Other assets	0019	6.137.729	6.990.225
<b>TOTAL ASSETS (from 0001 to 0019)</b>	<b>0020</b>	<b>393.735.244</b>	<b>406.261.524</b>
<b>LIABILITIES</b>			
Financial liabilities at fair value through profit or loss held for trading	0401	-	-
Financial liabilities initially recognized at fair value through profit or loss	0402	-	-
Liabilities from financial derivatives held for hedging	0403	-	-
Deposits and other liabilities to banks, other financial institutions and the central bank	0404	17.966.680	23.743.018
Deposits and other liabilities to other clients	0405	293.253.923	301.954.911
Changes in fair value of items that are the subject of hedging	0406	-	-
Issued own securities and other borrowed funds	0407	-	-
Subordinated liabilities	0408	6.054.672	6.036.680
Provisions	0409	1.771.331	1.640.595
Liabilities from non-current assets held for sale and assets of discontinued operations	0410	-	-
Current tax liabilities	0411	-	-
Deferred tax liabilities	0412	277.936	150.407
Other liabilities	0413	5.710.703	3.189.109
<b>TOTAL LIABILITIES (from 0401 to 0413)</b>	<b>0414</b>	<b>325.035.245</b>	<b>336.714.720</b>
<b>EQUITY</b>			
Equity	0415	40.034.550	40.034.550
Own shares	0416	-	-
Profit	0417	1.456.911	6.755.855
Loss	0418	-	-
Reserves	0419	27.208.538	22.756.399
Unrealized losses	0420	-	-
Shares without control	0421	-	-
<b>TOTAL EQUITY (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0</b>	<b>0422</b>	<b>68.699.999</b>	<b>69.546.804</b>
<b>TOTAL DEFICIENCY OF CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) &lt; 0</b>	<b>0423</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES (0414 + 0422 - 0423)</b>	<b>0424</b>	<b>393.735.244</b>	<b>406.261.524</b>



## INCOME STATEMENT

from 01.01.2015. to 30.09.2015.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.07.-30.09.	01.01.-30.09.	01.07.-30.09.	01.01.-30.09.
1	2	3*	4**	5	6
Interest income	1001	4 654.794	14 580.583	5 301.400	16 406.066
Interest expenses	1002	1 259.937	4 282.639	1 982.081	6 192.020
<b>Net interest profit (1001-1002)</b>	1003	3 394.857	10 297.944	3 319.319	10 214.046
<b>Net interest loss (1002-1001)</b>	1004	-	-	-	-
Fee and commission income	1005	1 531.644	4 428.391	1 449.701	4 112.999
Fee and commission expenses	1006	285.271	809.945	254.402	696.372
<b>Net fee and commission income (1005 - 1006)</b>	1007	1 246.373	3 618.446	1 195.299	3 416.627
<b>Net fee and commission expenses (1006 - 1005)</b>	1008	-	-	-	-
Net gains on financial assets held for trading	1009	2 301	4 337	1 466	4 266
Net loss on financial assets held for trading	1010	-	-	-	-
Net gains from risk protection	1011	-	-	-	-
Net loss from risk protection	1012	-	-	-	-
Net gains on financial assets that are initially recognized at fair value through profit or loss	1013	-	-	-	-
Net losses on financial assets that are initially recognized at fair value through profit or loss	1014	-	-	-	-
Net profit from sale of securities	1015	-	3 363	35 528	43 776
Net loss from sale of securities	1016	8 493	-	-	-
Net income from foreign exchange differences and effects of contracted foreign currency clause	1017	-	-	-	-
Net foreign exchange losses and the effects of contracted foreign currency clause	1018	41 986	28 767	56 362	132 324
Net gains on investments in associates and joint ventures	1019	-	-	-	-
Net loss on investments in associates and joint ventures	1020	-	-	-	-
Other operating income	1021	135 206	344 375	56 741	210 972
Net income from reversal of impairment of financial assets and off-balance sheet credit risk items	1022	-	-	-	-
Net impairment losses of financial assets and off-balance sheet credit risk items	1023	808 439	3 727 046	728 657	2 138 410
<b>NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0</b>	1024	3 919 819	10 512 652	3 823 334	11 618 953
<b>NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) &lt; 0</b>	1025	-	-	-	-
Salaries, wages, and other personnel indemnities	1026	1 028 529	3 087 515	1 038 507	3 129 110
Depreciation costs	1027	196 856	610 814	210 508	631 492
Other expenses	1028	2 086 037	5 509 616	1 420 577	4 309 476
<b>PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0</b>	1029	608 397	1 304 707	1 153 742	3 548 875
<b>LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) &lt; 0</b>	1030	-	-	-	-
Tax on profit	1031	-	-	-	-
Deffered tax income for the period	1032	-	-	-	-
Deffered tax expense for the period	1033	-	-	-	-
<b>PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0</b>	1034	608 397	1 304 707	1 153 742	3 548 875
<b>LOSS FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) &lt; 0</b>	1035	-	-	-	-
NET PROFIT OF DISCONTINUED OPERATIONS	1036	-	-	-	-
NET LOSS OF DISCONTINUED OPERATIONS	1037	-	-	-	-
<b>NET PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0</b>	1038	608 397	1 304 707	1 153 742	3 548 875
<b>NET LOSS (1034 - 1035 + 1036 - 1037) &lt; 0</b>	1039	-	-	-	-
Net profit which belongs to owners of parent legal entity	1040	-	-	-	-
Net profit which belongs to minority investors	1041	-	-	-	-
Net loss which belongs to owners of parent legal entity	1042	-	-	-	-
Net loss which belongs to minority investors	1043	-	-	-	-
<b>Earnings per share</b>					
Basic earnings per share (in RSD, rounded)	1044	-	-	-	-
Diluted earnings per share (in RSD, rounded)	1045	-	-	-	-

Column 3 for 1. quarter 01.01.-31.03., 2. quarter 01.04.-30.06., 3. quarter 01.07.-30.09.  
 Column 4 for 1. quarter 01.01.-31.03., 2. quarter 01.01.-30.06., 3. quarter 01.01.-30.09.



## REPORT ON OTHER FINANCIAL RESULT

from 01.01.2015. to 30.09.2015.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.07.-30.09.	01.01.-30.09.	01.07.-30.09.	01.01.-30.09.
1	2	3	4	5	6
PROFIT FOR THE PERIOD	2001	608.397	1.304.707	1.153.742	3.548.875
LOSS FOR THE PERIOD	2002	-	-	-	-
Other result for the period		-	-	-	-
Components of other result that cannot be reclassified to profit or loss: Increase of revaluation reserves against intangible assets and fixed assets	2003	-	-	-	-
Decrease of revaluation reserves against intangible assets and fixed assets	2004	-	-	0	3.472
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2007	-	-	-	-
Negative effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2008	-	-	-	-
Components of other result that can be reclassified to profit or loss: Positive effects of changes in fair value based on financial assets available for sale	2009	-	259.522	26.117	446.622
Unrealized losses arising from securities available for sale	2010	37.616	101.284	91.952	-
Gains from hedging instruments in a cash flow hedge	2011	-	-	-	-
Losses from hedging instruments in a cash flow hedge	2012	-	-	-	-
Positive cumulative differences arising from currency conversions in foreign exchange operations	2013	-	-	-	-
Negative cumulative differences arising from currency conversions in foreign exchange operations	2014	-	-	-	-
Positive effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2015	-	-	-	-
Negative effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2016	-	-	-	-
Tax-related profit that pertains to other result for the period	2017	-	-	-	-
Tax-related loss that pertains to other result for the period	2018	-	-	-	-
<b>Total positive other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) ≥ 0</b>	2019	-	158.238	-	443.150
<b>Total negative other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) &lt; 0</b>	2020	37.616	-	65.835	-
<b>TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0</b>	2021	570.781	1.462.945	1.087.907	3.992.025
<b>TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) &lt; 0</b>	2022	-	-	-	-
Total positive result for the period that pertains to parent entity	2023	-	-	-	-
Total positive result for the period that pertains to owners without control rights	2024	-	-	-	-
Total negative result for the period that pertains to parent entity	2025	-	-	-	-
Total negative result for the period that pertains to owners without control rights	2026	-	-	-	-

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



## CASH FLOW STATEMENT

from 01.01.2015 to 30.09.2015.

(in RSD thousand)

POSITION	ADP code	Amount	
		01.01.-30.09.2015.	01.01.-30.09.2014.
1	2	3*	4
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
I. Cash inflows from operating activities (from 3002 to 3005)	3001	19,358,417	19,492,131
1. Inflows from Interest	3002	14,869,468	15,213,795
2. Inflows from allowances	3003	4,353,653	4,124,769
3. Inflows from other operating income	3004	133,426	151,954
4. Inflows from dividends and participation in profit	3005	1,870	1,613
II. Cash outflows from operating activities (from 3007 to 3011)	3006	11,907,337	12,745,111
5. Outflows from interest	3007	3,624,972	4,726,852
6. Outflows from allowances	3008	814,339	698,556
7. Outflows from gross salaries, wages and other personnel indemnities	3009	2,964,151	2,827,198
8. Outflows from taxes, contributions and other obligations from income	3010	566,796	560,018
9. Outflows from other operating expenses	3011	3,937,079	3,932,487
III. Net cash inflow from operating activities prior to increase or decrease in advances and deposits (3001 - 3006)	3012	7,451,080	6,747,020
IV. Net cash outflow from operating activities prior to increase or decrease in advances and deposits (3006 - 3001)	3013	-	-
V. Decrease in loans and increase in deposits and other liabilities (from 3015 to 3020)	3014	28,086,207	16,120,269
10. Decrease in loans and advances to banks, other financial institutions, central bank and other clients	3015	28,086,207	13,013,496
11. Decrease of financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3016	-	-
12. Decrease in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3017	-	-
13. Increase in deposits and other liabilities to banks, other financial institutions, central banks and other clients	3018	-	3,106,773
14. Increase in financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3019	-	-
15. Increase in liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3020	-	-
VI. Increase in loans and decrease in deposits and other liabilities (from 3022 to 3027)	3021	11,034,487	2,891,216
16. Increase in loans and advances to banks, other financial institutions, central bank and other clients	3022	-	-
17. Increase in financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3023	203,789	2,891,216
18. Increase in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3024	-	-
19. Decrease in deposits and other liabilities to banks, other financial institutions, central bank and other clients	3025	10,830,698	-
20. Decrease of financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3026	-	-
21. Decrease of liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3027	-	-
VII. Net cash inflow from operating activities before tax (3012 - 3013 + 3014 - 3021)	3028	24,502,800	19,976,073
VIII. Net cash outflow from operating activities before tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22. Profit tax paid	3030	-	378,559
23. Dividends paid	3031	403	485,149
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	24,502,397	19,112,365
X. Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)	3033	-	-
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
I. Cash inflows from investing activities (od 3035 do 3039)	3034	20,864,269	15,297,843
1. Inflows from long-term investment in securities	3035	20,858,774	15,289,289
2. Inflows from sale of investments in subsidiaries and associates and joint ventures	3036	-	-
3. Inflows from sale of intangible assets, property, plant and equipment	3037	5,495	8,554
4. Inflow of sale of investment property	3038	-	-
5. Other inflows from investing activities	3039	-	-
II. Cash outflows from investing activities (from 3041 to 3045)	3040	44,250,124	39,323,303
6. Outflows from investment in long-term securities	3041	43,969,351	38,912,090
7. Outflows from purchase of investments in subsidiaries and associates and joint ventures	3042	-	-
8. Outflows from purchase of sale of intangible assets, property, plant and equipment	3043	280,773	410,624
9. Outflows from purchase of investment property	3044	-	589
10. Other outflows from investing activities	3045	-	-
III. Net cash inflow from investing activities (3034 - 3040)	3046	-	-
IV. Net cash outflow from investing activities (3040 - 3034)	3047	23,385,855	24,025,460
<b>B. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
I. Cash inflows from financing activities (from 3049 to 3054)	3048	82,652,804	137,736,432
1. Inflows from capital increase	3049	-	-
2. Cash inflows from subordinated obligations	3050	-	-
3. Cash inflows from loans received	3051	82,652,804	137,736,432
4. Inflows from securities	3052	-	-
5. Inflows from sale of own shares	3053	-	-
6. Other inflows from financing activities	3054	-	-
II. Cash outflows from financing activities (from 3056 to 3060)	3055	85,799,004	138,807,672
7. Outflows from purchase of own shares	3056	-	-
8. Cash outflows from subordinated obligations	3057	-	-
9. Cash outflows from loans received	3058	85,799,004	138,807,672
10. Cash outflows from securities	3059	-	-
11. Other outflows from financing activities	3060	-	-
III. Net cash inflow from financing activities (3048 - 3055)	3061	-	-
IV. Net cash outflow from financing activities (3055 - 3048)	3062	3,146,200	1,071,240
Г. TOTAL NET CASH INFLOWS (3001 + 3014 + 3034 + 3048)	3063	150,961,697	188,646,675
Д. TOTAL NET CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	152,991,355	194,631,010
Е. NET INCREASE IN CASH (3063 - 3064)	3065	-	-
Ж. NET DECREASE IN CASH (3064 - 3063)	3066	2,029,658	5,984,335
З. CASH AT THE BEGINNING OF THE YEAR	3067	45,160,177	40,297,749
И. PROFIT ON EXCHANGE	3068	-	750,108
Й. LOSS ON EXCHANGE	3069	214,812	-
К. CASH AT END OF PERIOD (3065 - 3066 + 3067 + 3068 - 3069)	3070	42,915,797	35,063,522

Column 3 for 1. квартал 01.01.-31.03., 2. квартал 01.01.-30.06., 3. квартал 01.01.-30.09.



## STATEMENT OF CHANGES IN EQUITY

from 01.01.2015 to 30.09.2015

ITEM	ADP code	Share and other capital (accounts 300,801,803)	ADP code	Own shares (account 129)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Total (column 2+3+4+5+6+7+8-9) >0	ADP code	Total (column 2-3+4+5+6+7+8-9) <0
Opening balance as of January 1st of preceding year	4001	17,191,466	4029		4097	22,843,084	4095	16,635,442	4113	1,791,266	4127	187,011	4141	6,687,971	4175		4239	64,962,218	4215	
Correction of material misstatement and changes to accounting policies in preceding year – increase	4002		4030		4058		4086		4114		4128		4142		4176					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4003		4031		4059		4087		4115		4129		4143		4177					
Adjusted opening balance as of January 1st of preceding year (number 1+2-3)	4004	17,191,466	4032		4000	22,843,084	4088	16,635,442	4116	1,791,266	4130	187,011	4144	6,687,971	4178		4210	64,962,218	4216	
Total positive other result for the period									4117	559,817	4131									
Total negative other result for the period									4118		4132									
Loss for the year									4119		4133									
Transfer from reserves to result due to release of reserves – increase									4120		4134									
Transfer from reserves to result due to release of reserves – decrease									4121		4135									
Transactions with owners, recorded directly in equity – increase	4005		4033		4061		4089		4122		4136									
Transactions with owners, recorded directly in equity – decrease	4006		4034		4062		4090		4123		4137									
Profit distribution – increase	4007		4035		4063		4091	4,000,000	4124		4138			4,000,000	4193					
Profit distribution – decrease	4008		4036		4064		4092		4125		4139			4,000,000	4194					
Dividend payments	4009		4037		4065		4093		4126		4140			54,420	4195					
Other – increase	4010		4038		4066		4094		4127		4141			27,203	4196					
Other – decrease	4011		4039		4067		4095		4128		4142			140,356	4197					
Total transactions with owners (number 11-12+13-14-15+16-17)	4012		4040		4068		4096	4,000,000	4129		4143			4198						
2,0																				
Total transactions with owners (number 11-12+13-14-15+16-17) < 0	4013		4041		4069		4097		4130		4144			4,717,603	4199					
Balance as of December 31st of preceding year (number 4+5-6+7+8-10-18-19 for columns from 2,3,4,5,6,8,9), for column 7 (number 4+6-5)	4014	17,191,466	4042		4070	22,843,084	4098	20,635,442	4119	2,351,085	4133	230,126	4157	6,759,855	4191		4211	69,548,804	4217	
Opening balance as of January 1st of the current year	4015	17,191,466	4043		4071	22,843,084	4099	20,635,442	4120	2,351,085	4134	230,126	4158	6,759,855	4192		4212	69,548,804	4218	
Correction of material misstatement and changes to accounting policies in preceding year – increase	4016		4044		4072		4100		4121		4135									
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4017		4045		4073		4101		4122		4136									
Adjusted opening balance as of January 1st of the current year (number 21+22-23)	4018	17,191,466	4046		4074	22,843,084	4102	20,635,442	4123	2,351,085	4137	230,126	4159	6,759,855	4195		4213	69,548,804	4219	
Total positive other result for the period									4124	253,423	4138									
Total negative other result for the period									4125		4139									
Profit for the year									4126		4140			1,304,707	4196					
Loss for the year									4127		4141									
Transfer from reserves to result due to release of reserves – increase									4128		4142									
Transfer from reserves to result due to release of reserves – decrease									4129		4143									
Transactions with owners, recorded directly in equity – increase	4019		4047		4075		4103		4131		4145									
Transactions with owners, recorded directly in equity – decrease	4020		4048		4076		4104		4132		4146									
Profit distribution – increase	4021		4049		4077		4105	4,300,000	4133		4147			4,300,000	4201					
Profit distribution – decrease	4022		4050		4078		4106		4134		4148			4,300,000	4202					
Dividend payments	4023		4051		4079		4107		4135		4149			1,962,750	4203					
Other – increase	4024		4052		4080		4108		4136		4150			6,099	4204					
Other – decrease	4025		4053		4081		4109		4137		4151			347,000	4205					
Total transactions with owners (number 31-32+33-34-35+36-37)	4026		4054		4082		4110	4,300,000	4138		4152			4,717,603	4206					
2,0																				
Total transactions with owners (number 31-32+33-34-35+36-37) < 0	4027		4055		4083		4111		4139		4153			6,003,651	4207					
Balance as of March 31st of the current year (number 24+25-26-27+28-29-30+38-39 for columns from 2,3,4,5,6,8,9), for the column 7 (number 24+25-26-27)	4028	17,191,466	4056		4084	22,843,084	4112	34,635,442	4120	2,604,509	4140	331,410	4174	1,458,911	4208		4214	68,699,669	4220	



# **NOTES**

## **TO FINANCIAL STATEMENTS FOR THE THIRD QUARTER OF 2015**

Belgrade, November 2015





## 1. INCORPORATION AND OPERATION OF THE BANK

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

As of 30.06.2015, the largest voting shareholders of the Bank are:

1. Republic of Serbia and
2. EBRD, London

The Bank has three subsidiaries with the following percentage holdings in their respective ownership:

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

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

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

As of September 30<sup>th</sup>, 2015, the Bank is consisted of the Head Office in Belgrade located at 14, Svetog Save Street, 24 branches and 215 sub-branches.

As of September 30<sup>th</sup>, 2015 the Bank had 2,877 employees, and on December 31<sup>st</sup>, 2014 the number of employees was 2,906. Tax ID number of the Bank is 100001931.

## 2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

### 2.1. Statement of Compliance

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

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

When preparing and presenting periodical financial statements for January – September 2015 period, the Bank was using the same accounting policies and calculation methods as used when preparing the Annual Financial Statements for the year 2014.

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

## 2.2. Assessment Rules

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

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

## 2.3. Functional and Reporting Currency

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

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

### BALANCE SHEET

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

ASSETS	30.09.2015		In RSD thousand 31.12.2014	
	Amount	%	Amount	%
Cash and cash funds held with the central bank	58,748,139	14.92	68,547,389	16.87
Financial assets at fair value through profit and loss, held for trading	882,104	0.22	121,634	0.03
Financial assets available for sale	117,195,651	29.77	95,481,249	23.50
Financial assets held to maturity	45,476	0.01	51,442	0.01
Loans and receivables due from banks and other financial institutions	23,453,430	5.96	34,737,605	8.55
Loans and receivables from customers	172,337,021	43.77	185,377,035	45.63
Investment in subsidiaries	5,480,888	1.39	5,480,888	1.35
Intangible assets	244,085	0.06	405,774	0.10
Property, plant and equipment	6,164,299	1.57	6,329,077	1.56
Investment property	2,800,974	0.71	2,581,144	0.64
Current tax assets	52,930	0.01	73,835	0.02
Deferred tax assets	127,530	0.03	-	-
Non-current assets held for sale and assets from discontinued operations	64,988	0.02	84,227	0.02
Other assets	6,137,729	1.56	6,990,225	1.72
<b>TOTAL ASSETS</b>	<b>393,735,244</b>	<b>100.00</b>	<b>406,261,524</b>	<b>100.00</b>

LIABILITIES	30.09.2015		In thousand RSD 31.12.2014	
	Amount	%	Amount	%
Deposits and other liabilities due to banks, other financial organizations and the central bank	17,966,680	4.56	23,743,018	5.84
Deposits and other liabilities due to other customers	293,253,923	74.48	301,954,911	74.33
Subordinated liabilities	6,054,672	1.54	6,036,680	1.49
Provisions	1,771,331	0.45	1,640,595	0.40
Deferred tax liabilities	277,936	0.07	150,407	0.04
Other liabilities	5,710,703	1.45	3,189,109	0.78
Equity	68,699,999	17.45	69,546,804	17.12
<b>TOTAL LIABILITIES</b>	<b>393,735,244</b>	<b>100.00</b>	<b>406,261,524</b>	<b>100.00</b>

*INCOME STATEMENT*

Income and expense structure and their share in the corresponding 2015 Income Statement categories are as follows:

	In thousand RSD	
	30.09.2015	30.09.2014
<b>INCOME</b>	<b>Total</b>	<b>Total</b>
Interest income	14,580,583	16,406,066
Fee and commission income	4,428,391	4,112,999
Net gains on the financial assets held for trading	4,337	4,266
Net gains on financial assets available for sale	3,363	43,776
Net income from foreign exchange differentials and the effects of agreed currency clause	-	-
Other operating income	344,375	210,972
<b>EXPENSES</b>	<b>Total</b>	<b>Total</b>
Interest expense	4,282,639	6,192,020
Fee and commission expense	809,945	696,372
Net expense from exchange rate differentials and the effects of agreed currency clause	28,767	132,324
Net expense from impairment of financial assets and credit risk weighted off-balance sheet items	3,727,046	2,138,410
Cost of salaries, allowances and other personnel expenses	3,087,515	3,129,110
Depreciation cost	610,814	631,492
Other expenses	5,509,616	4,309,476
<b>Result of the period (profit)</b>	<b>1,304,707</b>	<b>3,548,875</b>

CASH FLOW STATEMENT

In thousand RSD

Item	30.09.2015	30.09.2014
	Total	Total s
<b>Cash inflows from operating activities</b>	<b>19,358,417</b>	<b>19,492,131</b>
Inflow from interest	14,869,468	15,213,795
Inflow from fees	4,353,653	4,124,769
Inflow from other operating activities	133,426	151,954
Inflow from dividends and share in profit	1,870	1,613
<b>Cash outflows from operating activities</b>	<b>11,907,337</b>	<b>12,745,111</b>
Interest payments	3,624,972	4,726,852
Fee payments	814,339	698,556
Payments for gross salaries, allowances and other personnel expenses	2,964,151	2,827,198
Taxes, contributions and other duties charged to income	566,796	560,018
Payments for other operating expenses	3,937,079	3,932,487
<b>Net cash inflow from operating activities before increase or decrease in loans and deposits</b>	<b>7,451,080</b>	<b>6,747,020</b>
<b>Decrease in lending and increase in deposits and other liabilities</b>	<b>28,086,207</b>	<b>16,120,269</b>
Decrease in loans and receivables from banks, other financial organisations, the central bank and customers	28,086,207	13,013,496
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	-	-
Increase in deposits and other liabilities to banks, other financial organisations, the central bank and customers	-	3,106,773
<b>Increase in lending and decrease in received deposits and other liabilities</b>	<b>11,034,487</b>	<b>2,891,216</b>
Increase in loans and receivables from banks, other financial organisations, the central bank and customers	-	-
Increase in financial assets initially recognized at fair value through income statement, financial assets held for trading and other securities not held for investment	203,789	2,891,216
Decrease in deposits and other liabilities to banks, other financial organisations, central banks and customers	10,830,698	-

In thousand RSD

Item	30.09.2015	30.09.2014
	Total	Total
<b>Net inflow of cash from operating activities before profit tax</b>	<b>24,502,800</b>	<b>19,976,073</b>
<b>Net outflow of cash from operating activities before profit tax</b>	<b>-</b>	<b>-</b>
Paid profit tax	-	378,559
Paid dividends	403	485,149
<b>Net inflow of cash from operating activities</b>	<b>24,502,397</b>	<b>19,112,365</b>
<b>Net outflow of cash from operating activities</b>	<b>-</b>	<b>-</b>
<b>Cash inflow from investment activities</b>	<b>20,864,269</b>	<b>15,297,843</b>
Inflow from investment securities	20,858,774	15,289,289
Inflow from sales of intangible assets, property, plants and equipment	5,495	8,554
<b>Cash outflow from investment activities</b>	<b>44,250,124</b>	<b>39,323,303</b>
Outflow for investing in investment securities	43,969,351	38,912,090
Outflow for purchase of intangible assets, property, plants and equipment	280,773	410,624
Outflow for purchase of investment property	-	589
<b>Net outflow of cash from investment activities</b>	<b>23,385,855</b>	<b>24,025,460</b>
<b>Cash inflow from financing activity</b>	<b>82,652,804</b>	<b>137,736,432</b>
Inflow from borrowings	82,652,804	137,736,432
<b>Cash outflow from financing activity</b>	<b>85,799,004</b>	<b>138,807,672</b>
Outflow from borrowings	85,799,004	138,807,672
<b>Net inflow of cash from financing activity</b>	<b>-</b>	<b>-</b>
<b>Net outflow of cash from financing activity</b>	<b>3,146,200</b>	<b>1,071,240</b>
<b>Total cash inflow</b>	<b>150,961,697</b>	<b>188,646,675</b>
<b>Total cash outflow</b>	<b>152,991,355</b>	<b>194,631,010</b>
<b>Net increase in cash</b>	<b>-</b>	<b>-</b>
<b>Net decrease in cash</b>	<b>2,029,658</b>	<b>5,984,335</b>
<b>Cash and cash equivalents at the start of the year</b>	<b>45,160,177</b>	<b>40,297,749</b>
Exchange rate gains	-	750,108
Exchange rate loss	214,812	-
<b>End of period cash and cash equivalents</b>	<b>42,915,707</b>	<b>35,063,522</b>

## INCOME STATEMENT

### 3.1. Interest Income and Expenses

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

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

Net interest income in the period from January – September 2015 amounts to RSD 10,297,944 thousand and is higher by RSD 83,898 thousand, or 0.82%, compared to the same quarter last year, and/or they remained at almost the same level as in the previous comparative period.

### 3.2. Fee and Commission Income and Expenses

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

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

Net fee income in the period from January – September 2015 amounts to RSD 3,618,446 thousand and is higher compared to the same period 2014 by 5.91% or RSD 201,819 thousand.

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

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

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

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

In the observed period of 2015 the Bank showed the net gains against financial assets held for trading in the amount of RSD 4,337 thousand (SWAP transactions, investment units of Kombank Invest and shares of issuers – companies), and against financial assets available for sale in the amount of RSD 3,363 thousand (bonds of the Republic of Serbia, old FX savings bonds and RS T-bills).

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

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

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

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

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

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

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

Net expenses from exchange rate differentials in the reporting period January – September 2015 amount to RSD 28,767 thousand. The stated net effect is mainly under direct impact of movement of RSD exchange rate against currency basket (currencies EUR, USD and CHF) between the two observed reporting period as a form of protection against risk and management of the Bank's FX position.

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

### **3.5. Other Operating Income**

In the overall other income of RSD 344,375 thousand, the other operating revenues account for the large share of 35.02% (in the last year 31,52 %), which mainly refer to the income from renting the real estate amounting to RSD 72,765 thousand. Other operating revenues came as a result of the compensation for mobile telephone expenses, court expenses and cost of utility services, and also as a result of income from damages paid by insurance companies. Within other income the most significant items relate to interest income from previous years generated from corporate and retail operations in total amount of RSD 196,485 thousand. Interest income from corporate clients in the largest individual amount relates to collection of interest regarding the client Vojvodina autoput ad amounting to RSD 37,137 thousand and Veterinary Medicine Institute Inc. Zemun in the amount of RSD 48,400 thousand. The amount of RSD 87,821 thousand relates to income arising from harmonization of balances between analytics and general ledger based on accrued income for receivables stated at amortized value by applying effective interest rate which was conducted in the month of August 2015.

Dividends received from investment in shares of other legal entities in the amount of RSD 2,587 thousand are shown as income from dividends at the moment of their collection. Income from dividends is part of Position: Other Income.

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

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

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

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

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

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

Net expenses arising from impairment of financial assets and credit risk weighted off-balance sheet items amount to RSD 3,727,046 thousand and are significantly higher by RSD 1,588,636 thousand, compared to 30.09.2014, mainly due to increase of credit risk. Direct consequence of the increase in net expenses for this item was the increase in impairment allowance and provisions due to increased credit risk of several largest clients of the Bank, the most important of which are: Rudnap, Verano, koncern Farmakom, IMK 14 oktobar ad Kruševac, Žitko AD Bačka Topola and Minel transformatori Ripanj in restructuring.

### 3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 3,087,515 thousand are lower by RSD 41,595 thousand or 1.33% compared to the same period last year, as a result of a reduced number of employees and reduced earnings that are increased based on the past labour/years of service from 0.5 % to 0.4 %.

### 3.8. Depreciation Costs

Depreciation costs amounting to RSD 610,814 thousand are lower compared to the period January – September 2014 by RSD 20,678 thousand due to expiry of amortization for the Bank's CORE information system in the second quarter of 2015.



### 3.9. Operating Expenses and Other Operating Expenses

Operating and other operating expenses stated in the amount of RSD 5,509,616 thousand are increased in comparison to the same period last year by RSD 1,200,140 thousand, or by 27.85%, against operating expenses (mainly due to increase in deposit insurance costs by RSD 127,355 thousand compared to previous year) and increase in other expenses (largely due to increase of expenses arising from lost court case in the amount of RSD 600,000 thousand, correction of interest from previous years in the amount of RSD 300,514 thousand, and expenses pertaining to provisions for court proceedings amounting to RSD 178,667 thousand).

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

*Operating expenses:*

- costs of production services in the amount of RSD 1,617,761 thousand of which the largest amounts account for: rental costs for office space, equipment and advertising space in the amount of RSD 533,357 thousand, costs of managing and maintaining ATMs and POS terminals and equipment for payment cards amounting to RSD 261,132 thousand, costs of maintenance of information equipment and software in the amount of RSD 181,694 thousand, costs of advertising and marketing amounting to RSD 219,900 thousand.
- intangible costs totalling RSD 1,789,393 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 1,083,591 thousand. The reason of sudden increase in cost of deposit insurance is the increase in average balance of deposits
- cost of materials amounting to RSD 328,806 thousand

*Other expenses:*

- expenses arising from the lost litigation (principal amount and interest) of RSD 600,000 thousand on the basis of received court judgment as per the case INEX Cuba. Further to this litigation the NBS conducted the forced collection and debited the Bank's account on 19.10.2015 in the amount of RSD 560,837 thousand (details provided in Note 6, Events after balance sheet).
- correction of interest from previous years for housing loans indexed in CHF, in accordance with the decree of the Serbian Government from March 2015. The interest rate was reduced to the original level and the total difference related to correction of the overcharged amount that resulted in income of RSD 167,131 thousand was recorded as the expense for the current period.
- correction of interest from previous years against the corporate loans in the amount of RSD 133,383 thousand for the clients: Beohemija, RSD 100,783 thousand, Dahlia doo, RSD 13,787 thousand, Interkomerc RSD 8,033 thousand and Beohemija inhem doo Zrenjanin, RSD 5,786 thousand
- costs of life insurance policy of the clients assigned in favour of the Bank, which the Bank uses as collateral and according to the Agreement this shall be borne by the Bank in the amount of RSD 31,217 thousand.

## BALANCE SHEET

Balance sheet total as of 30.09.2015 amounts to RSD 393,735,244 thousand, which in comparison to 31.12.2014 represents a reduction by RSD 12,526,860 thousand, or by 3.08%. The decrease came mostly as a result of a decrease in loans and receivables from the Bank's customers on the assets side and a decrease in deposits on the liabilities side.

### ASSETS

In total Bank's assets, loans and deposits to customers and banks have a dominant share of 49.73% (2014: 54.18%), financial assets available for sale with a share of 29.77% (2014: 23.50%), cash and funds at the central bank with a share of 14.92% (2014: 16.87%) and investment in subsidiaries of 1.39% (2014: 1.35%).

#### **3.10. Cash and Funds with the Central Bank**

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

Cash and assets with the central bank as of 30.09.2015 amount to RSD 58,748,139 thousand, and account for 14.92% of Bank's total assets (16.87 % as of 31.12.2014). Compared to 31.12.2014 the position is decreased by RSD 9,799,250 thousand, which is a result of higher net outflows arising from investment in financial assets available for sale – government bonds (in dinars and in foreign currency) and from withdrawal of clients' deposits compared to increase in cash caused by reduction in loans.

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

Investment in securities at fair value in the amount of RSD 882,104 thousand and financial assets available for sale in the amount of RSD 117,195,651 thousand together make up a percentage of share of 29.99% of total assets (2014: 23.53%); they increased compared to 2014 by RSD 22,474,872 thousand. The achieved increase almost entirely relates to investments in financial assets available for sale in the amount of RSD 21,714,402 thousand.

In the structure of dinar financial assets available for sale as of 30.09.2015, the largest share is that of the bonds of the Republic of Serbia of 73.59%, then T-bills of the Republic of Serbia with 25.01%. When it comes to securities in foreign currency, these are the bonds of the Republic of Serbia, including the bonds of old FX savings in percentage of 84.56%, while the share of T-bills of the Republic of Serbia is 12.87%.

#### **3.12. Loans and Receivables from Banks and Other Financial Organisations and Loans and Receivables from Customers**

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

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

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

As of 30.09.2015 loans and receivables from banks and other financial organizations amount to RSD 23,453,430 thousand with percentage of share of 5.96% of total assets (2014: RSD 34,737,605 thousand) and are lower by RSD 11,284,175 thousand. Decrease from 31.12.2014 came mostly from a decrease in repo transactions in the amount of RSD 7,000,000 thousand and net decrease in overnight and other loans to banks in the amount of RSD 4,284,175 thousand (decrease in overnight loans RSD 8,228,702 thousand and an increase in other loans to banks in the amount of RSD 3,944,527 thousand).

Loans and receivables from customers as of 30.09.2015 amount to RSD 172,337,021 thousand with a percentage of share of 43.77% of total assets (2014: RSD 185,377,035 thousand) and have predominant share in asset structure. Total loans to customers are lower by RSD 13,040,014 thousand mainly due to early repayment of loans by enterprises in the amount of approximately RSD 7,870,000 thousand (of which the largest clients by the amount of early repayment are the following: Nelt d.o.o. amount RSD 1,210,000 thousand, Grain international RSD 7,716 thousand, IMLEK ad EUR 11,000 thousand, Knjaz Miloš EUR 5,713 thousand, Eliksir Zorka EUR 4,000 thousand, Soja protein EUR 3,000 thousand, Evolucija 2004 EUR 1,736 thousand, PKB EUR 1,383 thousand, CITY records EUR 271 thousand, MBA Ratko Mitrović niskogradnja RSD 325,000 thousand and AD BB trade Žitište in total amount of RSD 26,580 thousand, as well as due to increase of allowance for loan impairment caused by more restrictive credit risk assessment policy and new credit risk assessment for certain clients: Rudnap which, as from 27.02.2015, has been in blockage, Verano, koncern Farmakom, IMK 14 oktobra ad Kruševac, Žitko AD Bačka Topola and Minel transformatori Ripanj in restructuring.

Since the start of 2015 there has been a tendency of declined lending caused by the collection of a portion of due loans, early repayment of some loans and decreased demand for loans which, with the implementation of more restrictive policy for credit risk assessment in the Bank resulted in a decrease in lending to banks and customers, compared to 2014.

### 3.13. Investment in Subsidiaries

Investments in subsidiaries are RSD 5,480,888 thousand and account for 1.39% of total assets. Ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with related entities, as part of regular operations. These include primarily loans and deposits. Transactions with related entities have been carried out on market terms.

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

All these items account for as little as 3.96% of total assets, of which the largest part is property, plants and equipment and investment property in the amount of 2.28%, other assets 1.56% and intangible assets in the amount of 0.06%. Other assets in the amount of RSD 6,137,729 thousand decreased from 2014 by RSD 852,496 thousand mainly due to impact of a decrease in receivables for purchase and sale of currencies on FX market in foreign currency.

Receivables from court disputes in the amount of RSD 209,430 thousand almost entirely relate to the client KMS and have been fully provisioned.

Investments in the capital of banks, foreign and local legal entities as of 30.09.2015 amount to RSD 1,269,517 thousand (gross amount, excluding impairment allowance), of which stake in the equity of foreign entities amounts to RSD 670,855 thousand and these are stakes in the companies Master and Visa International.

## LIABILITIES

In the period January - September 2015 the structure of liabilities was still dominated by deposits and other liabilities to banks and customers and the capital with a total percentage of 96.49% (2014: 97.29%) of total liabilities. Share of capital in total liabilities equals 17.45% (2014: 17.12%).

Other items account for 3.51% of total liabilities, with the largest part of this item being subordinated liabilities with a percentage of 1.54%.

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

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

FX deposits are shown in Dinar at middle exchange rate of currencies applicable as at the balance sheet date. In the balance sheet, deposits are shown as transaction and other deposits of the financial sector and deposits from other customers.

Deposits and other liabilities to customers account for the largest share in the structure of liabilities in the amount of RSD 293,253,923 thousand thus accounting for 74.48% of total liabilities (2014: 74.33%) followed by deposits and other liabilities to banks, other financial organisations and the central bank in the amount of RSD 17,966,680 thousand with a share of 4.56% (2014: 5.84%).

When compared to 2014 the total decrease in deposits is RSD 14,477,326 thousand: transaction deposits are lower by approximately RSD 6,351,785 thousand, while all other deposits recorded a decrease in the amount of RSD 8,125,541 thousand. Net decrease in transaction deposits resulted from withdrawal of RSD deposits of clients in the amount of RSD 13,803,072 thousand while the transaction deposits in foreign currency recorded a growth in the amount of RSD 7,451,287 thousand. The structure of transaction deposits is still dominated by deposits in local currency with share of 58.24%, whereas the remaining 41.76% relate to deposits in foreign currency.

Other deposits are dominated by foreign currency deposits with a share of 90.24% while dinar deposits account for 9.76%. In the reporting period the trend continues of increased FX savings by total of EUR 55,5 million despite the net decline in interest rates.

#### *Borrowings*

Borrowings, as part of the position deposits and other liabilities to banks and other customers, amount to RSD 26,042,741 thousand and with a percentage of share in total liabilities of 6.61% it recorded a reduction relative to 2014 in the amount of RSD 3,117,089 thousand, as a result of repayment of due tranches.

In item – liabilities to foreign banks, same as last year, the borrowings from the following foreign creditors account for the largest share:

1. EFSE fund (RSD 5,122,866 thousand)
2. GGF (RSD 1,574,102 thousand)
3. FMO (RSD 2,394,982 thousand)
4. IFC (RSD 1,796,237 thousand)
5. EBRD (RSD 3,763,543 thousand)

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

1. LEDIB 1 and 2 (Loan from Kingdom of Denmark) – RSD 39,607 thousand,
2. Government of the Republic of Italy – RSD 519,627 thousand,
3. European Investment Bank (EIB) – RSD 5,181,387 thousand,
4. European Agency for Reconstruction (EAR) – RSD 263,680 thousand,
5. KfW – RSD 5,388,710 thousand.

The presented long-term loans are due over the period from 2015 until 2022

### **3.16. Subordinated Liabilities**

In accordance with the regulations of the National Bank of Serbia regarding capital requirements and implementation of Basel II standard, in 2011 the Bank strengthened its capital base by taking a subordinated loan from the IFC. Subordinated liabilities as of September 30<sup>th</sup>, 2015 amount to RSD 6.054.672 thousand and they comprise the subordinated loan of RSD 5,987,455 thousand in dinar equivalent of EUR 50,000 thousand, increased by accrued interest-related liabilities in the amount of RSD 86.201 thousand and reduced by the amount of accrued expenses for the liabilities stated at amortized value, by applying effective interest rate of RSD 18,984 thousand. The loan was approved by the International Finance Corporation.

### **3.17. Provisions**

The Bank's provisions in the amount of RSD 1,771,331 thousand consist of provisions for: coverage of liabilities (court disputes), long-term employee salaries and provisions for losses on off-balance sheet assets. Compared to 2014, in the observed period there was an increase in provisions in the amount of RSD 130,736 thousand.

Net increase came as a result of the increase in provisions for court disputes in the amount of RSD 171,089 thousand and a decrease in provisions for losses on off-balance sheet assets in the amount of RSD 40,353 thousand. The increase came mostly from additional provisions for court disputes, specifically the court dispute with the company Inex-Interexport a.d. in bankruptcy where an increase of RSD 57,281 thousand resulted from the calculated default interest with a simultaneous increase in liabilities for default interest and exchange rate differentials in connection with the dollar amount from the legal action against the Republic of Serbia in the amount of RSD 82,931 thousand.

Apart from these provisions, additional provisioning was carried out for two new cases in the amount of RSD 38,454 thousand. In the observed period, the Bank reduced provisions for court disputes in the amount of RSD 7,578 thousand on the basis of payment as per lost court case for the client --"Elektroveze poslovne usluge" in bankruptcy.

In accordance with the Decision of the Supreme Court of Cassation in Belgrade, during April 2014 the Bank recovered the total amount of RSD 755,656 thousand that was debited from the Bank's account in the previous year in the process of forced collection, with reference to the court dispute with Interexport a.d., Beograd (in bankruptcy). With this decision the previous decision of the Commercial Court in Belgrade from 2013 was overturned and the case was returned to the first instance court for a retrial. According to the court decision, the bank was given the amount from the decision until retrial has been completed. In 2014 the Bank made a provision for the full amount and in 2015 additional provisions were allocated for the item from the previous paragraph.

### 3.18. Other liabilities

Other liabilities amount to RSD 5,710,703 thousand and compared to 2014 are higher by RSD 2,521,594 thousand. Increase in other liabilities mainly relate to liabilities from profit resulted from booking of profit distribution from previous year as per Decision of the General Meeting of Bank's Shareholders dated 04.06.2015. Percentage of share of other liabilities in total assets is 1.45% (2014: 0.78%).

On 27.07.2015 the Bank received the judicial decision of the Court of Appeal in the legal matter of the plaintiff „Interexport“, Bankruptcy estate from Belgrade, according to which Komercijalna banka is obligated to pay to the plaintiff, on the grounds of arrangement with the National Bank of Cuba, the amount of CAD 2,995,475.00 with the interest of domicile country from 06.01.1990 until 24.12.2012 and from 25.12.2012 until disbursement according to the provisions of the Law on Default Interest Rate.

The Bank included the calculated liabilities arising from the received court decision in the amount of RSD 600,000 thousand.

On 19.10.2015, the National Bank of Serbia conducted the forced collection in favour of plaintiff in the amount of RSD 560,837 thousand (details as per each item in Note 6).

### 3.19. Capital

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

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

As at 30.09.2015 the Bank's capital consists of:

In RSD thousand	2015	2014
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from the profit	24,935,440	20,635,440
Revaluation reserves	2,495,988	2,242,565
Unrealized losses based on securities available for sale	(331,410)	(230,126)
Actuarial gain	108,520	108,520
Reserves	27,208,538	22,756,399
Accumulated profit	1,456,911	6,755,855
<b>Balance as at date</b>	<b>68,699,999</b>	<b>69,546,804</b>

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

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

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

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

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

The capital adequacy ratio of the Bank as at September 30<sup>th</sup>, 2015, calculated on the basis of the financial statements, equals 21.21%, having implemented the applicable decisions of the National Bank of Serbia for 2015.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 30.09.2015 the pecuniary part of capital is above the prescribed level.

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

The structure of the share capital – ordinary shares as at September 30<sup>th</sup>, 2015 is as follows:

Shareholder name	% of share
Republic of Serbia	41.74
EBRD, LONDON	24.43
IFC CAPITALIZATION FUND LP	10.15
DEG-DEUTSHE INVESTITIONS	4.60
SWEDFUND INTERNATIONAL	2.30
Jugobanka AD Beograd in bankruptcy	1.91
EAST CAPITAL (lux) BALKAN FUND	1.46
INVEJ DOO, Beograd	1.37
Evropa osiguranje AD Beograd in bankruptcy	1.06
Company Dunav osiguranje	1.02
UNICREDIT BANK Serbia – custody account 2	0.75
UNICREDIT BANK Serbia a.d.	0.74
STANKOM CO DOO BEOGRAD	0.70
EAST CAPITAL (lux) EASTERN E	0.53
Others	7.24
	<u>100.00</u>

By Decision of the General Meeting of 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 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.

#### 4. RELATIONS WITH SUBSIDIARIES

##### 4. A. Balance as of 30.09.2015

RECEIVABLES						In thousand RSD	
Subsidiary	Loans and advances	Interests and fees	Other assets	Impairments	Net BS exposure	Off-balance	Total
1. Kom.banka AD Budva	6,447	861	-	-	7,308	-	7,308
2. Kom.banka AD Banja Luka	564,532	-	763	-	565,295	-	565,295
3. Kombok INVEST	-	72	5	-	77	195	272
<b>TOTAL:</b>	<b>570,979</b>	<b>933</b>	<b>768</b>	<b>-</b>	<b>572,680</b>	<b>195</b>	<b>572,875</b>



LIABILITIES In thousand RSD

Subsidiary	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom.banka AD Budva	931,456	-	1,672	933,128
2. Kom.banka AD Banja Luka	71,331	-	-	71,331
3. Kombank INVEST	21	-	-	21
<b>TOTAL:</b>	<b>1,002,808</b>	<b>-</b>	<b>1,672</b>	<b>1,004,480</b>

INCOME AND EXPENSES for period 01.01 – 30.09.2015 In thousand RSD

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

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

4. B. Balance as of 31.12.2014

RECEIVABLES In thousand RSD

Subsidiary	Loans and advances	Interest and fees	Other assets	Impairments	Net BS exposure	Off-balance	Total
1. Kom.banka AD Budva	6,442	862	-	-	7,304	-	7,304
2. Kom.banka AD Banja Luka	604,792	-	3,443	-	608,235	-	608,235
3. Kombank INVEST	-	1	3	-	4	197	201
<b>TOTAL:</b>	<b>611,234</b>	<b>863</b>	<b>3,446</b>	<b>-</b>	<b>615,543</b>	<b>197</b>	<b>615,740</b>

LIABILITIES In thousand RSD

Subsidiary	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom.banka AD Budva	117,835	-	1,689	119,524
2. Kom.banka AD Banja Luka	10,831	-	-	10,831
3. Kombank INVEST	9,757	3	-	9,760
<b>TOTAL:</b>	<b>138,423</b>	<b>3</b>	<b>1,689</b>	<b>140,115</b>

INCOME AND EXPENSES for period 01.01. - 30.09.2014

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

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

## 5. RISK MANAGEMENT

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

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

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

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

The Bank 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 Bank. Through the clearly defined process of introducing new products, the bank analyses the influence of all new services and products on the future risk exposures in order to optimize its revenues and losses based on the estimated risk as well as to minimize all potential adverse effects on the Bank's financial result.

### Risk Management System

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

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

Risk Management Strategy sets out:

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

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

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

Policies for managing certain risk types define the following:

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

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

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

### **Competencies**

*The Board of Directors* is competent and responsible for adoption of risk management strategies and policies, for capital management strategy and for establishing the internal controls system and supervision over its efficiency; its competence and responsibilities include also determining the internal organization, and/or the Bank's organizational structure, which provides for the division of duties, competences and responsibilities of the employees in a manner that prevents the conflict of interest and provides for transparent and documented process of making and implementing decisions, oversight of the work of the Executive Board, as well as for implementation of internal capital adequacy assessment process. Likewise, the Board of Directors is competent for adoption of Bank's Recovery Plan.

*The Executive Board* is competent and responsible for implementation of risk management strategies and policies and capital management strategy by adoption of risk management procedures, and/or for risk identification, measurement, and/or assessment and for providing their implementation and reporting to the Board of Directors on such activities. It proposes to the Board of Directors the risk management strategy and policy and the Bank's capital management strategy, analyses the risk management system and at least quarterly reports to the Bank's Board of Directors on the exposure level and on risk management. It decides, with prior consent of the Board of Directors, on any increase in Bank's exposure to a party related to the Bank and notifies thereof the Board of Directors.

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

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

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

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

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

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

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

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

### **Risk Management Process**

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

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

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

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

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

### **Risk Types**

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

#### **5.1. Credit Risk**

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

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

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

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

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

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

#### ***Credit Risk Management***

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

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

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

The basic principles of credit risk management are as follows:

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

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

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

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

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

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

Basic credit risk alleviating techniques are:

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

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

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

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

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

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

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

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

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

#### *Downgrade Risk*

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

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

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

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

#### *Risk of Change in Value of Assets*

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

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

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

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

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

#### *Individual Assessment*

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

#### *Group 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 Losses on Off-Balance Sheet Items*

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

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



5.1.1. *Maximum Credit Risk Exposure*

Maximum credit risk exposure as of September 30, 2015 and December 31, 2014 is presented in the table below without taking into account any collateral or any other sort of credit risk hedge. The stated values are presented in gross and net carrying amounts (after impairment effects).

*Maximum Credit Risk Exposure before Collateral or any Other Improvements*

	September 30, 2015		December 31, 2014	
	Gross	Net	Gross	Net
<b>I. Assets</b>	<b>403,142,680</b>	<b>375,052,588</b>	<b>411,491,955</b>	<b>387,248,783</b>
Cash and cash funds held with the central bank	58,748,139	58,748,139	68,547,389	68,547,389
Loans and receivables due from banks and other financial institutions	23,840,608	23,453,430	35,106,194	34,737,605
Loans and receivables due from customers	199,296,146	172,337,021	208,462,012	185,377,035
Financial assets	118,222,272	118,123,231	95,774,547	95,654,325
Other assets	3,035,515	2,390,766	3,601,813	2,932,429
<b>II. Off-balance sheet items</b>	<b>27,800,606</b>	<b>27,272,534</b>	<b>30,165,789</b>	<b>29,597,365</b>
Payment guarantees (Note 39.1)	5,041,908	4,900,932	4,767,131	4,626,118
Performance bonds (Note 39.1)	6,586,296	6,477,144	7,883,510	7,734,385
Irrevocable commitments	15,702,849	15,702,849	16,715,960	16,715,960
Other items	469,553	191,609	799,188	520,902
<b>Total (I+II)</b>	<b>430,943,285</b>	<b>402,325,122</b>	<b>441,657,744</b>	<b>416,846,148</b>

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

All amounts expressed in thousands of RSD, unless otherwise stated.

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

	Housing loans	Cash loans	Agricultural loans	Other loans	Micro business	Total retail	Corporate customers	Total	Due from Banks
September 30, 2015									
Loans not matured and not provided for	-	-	-	-	-	-	1,965,684	1,965,684	23,446,122
Loans matured and not provided for	-	-	-	-	-	-	1,048,565	1,048,565	7,308
Group-level impaired	36,853,897	16,933,044	5,377,323	7,152,623	6,017,426	72,334,313	88,065,306	160,399,620	387,178
Individually impaired	924,119	-	101,611	-	972,656	1,998,386	33,883,891	35,882,277	-
<b>Total</b>	<b>37,778,016</b>	<b>16,933,044</b>	<b>5,478,934</b>	<b>7,152,623</b>	<b>6,990,082</b>	<b>74,332,699</b>	<b>124,963,447</b>	<b>199,296,146</b>	<b>23,840,608</b>
<b>Impairment allowance</b>	<b>709,662</b>	<b>939,225</b>	<b>410,316</b>	<b>718,145</b>	<b>1,090,318</b>	<b>3,867,666</b>	<b>23,091,459</b>	<b>26,959,124</b>	<b>387,178</b>
Group-level impairment allowance	472,902	939,225	384,021	718,145	951,053	3,465,346	9,604,698	13,070,044	387,178
Individual impairment allowance	236,759	-	26,295	-	139,264	402,319	13,486,761	13,889,080	-
<b>Net carrying value</b>	<b>37,068,354</b>	<b>15,993,819</b>	<b>5,068,618</b>	<b>6,434,478</b>	<b>5,899,764</b>	<b>70,465,033</b>	<b>101,871,988</b>	<b>172,337,021</b>	<b>23,453,430</b>

	Housing loans	Cash loans	Agricultural loans	Other loans	Micro business	Total retail	Corporate customers	Total	Due from Banks
December 31, 2014									
Loans not matured and not provided for	-	-	-	-	-	-	2,313,323	2,313,323	27,533,227
Loans matured and not provided for	-	-	-	-	-	-	1,557,306	1,557,306	7,204,378
Group-level impaired	37,033,132	15,133,016	5,307,696	7,264,505	6,248,660	70,987,009	95,147,574	166,134,583	368,589
Individually impaired	760,253	-	94,069	-	995,964	1,850,286	36,606,514	38,456,800	-
<b>Total</b>	<b>37,793,385</b>	<b>15,133,016</b>	<b>5,401,765</b>	<b>7,264,505</b>	<b>7,244,624</b>	<b>72,837,295</b>	<b>135,624,717</b>	<b>208,462,012</b>	<b>35,106,194</b>
<b>Impairment allowance</b>	<b>543,326</b>	<b>903,607</b>	<b>436,472</b>	<b>720,048</b>	<b>1,070,353</b>	<b>3,673,807</b>	<b>19,411,170</b>	<b>23,084,977</b>	<b>368,589</b>
Group-level impairment allowance	440,780	903,607	413,477	720,048	883,455	3,361,367	8,733,842	12,095,209	368,589
Individual impairment allowance	102,546	-	22,995	-	186,899	312,440	10,677,328	10,989,768	-
<b>Net carrying value</b>	<b>37,250,059</b>	<b>14,229,409</b>	<b>4,965,292</b>	<b>6,544,457</b>	<b>6,174,271</b>	<b>69,163,489</b>	<b>116,213,547</b>	<b>185,377,035</b>	<b>34,737,605</b>

*Impaired Loans and Receivables*

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

*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 Bank believes that it is not appropriate to make impairment allowance for such receivables given that there is certainty of collection by the Bank.

*Receivables not Matured and not Impaired*

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

*Loans and receivables due from customers, banks and other financial institutions, not matured and not impaired*

	September 30, 2015								
	Housing loans	Cash loans	Agricultural loans	Other loans	Micro business	Total retail	Corporate customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	1,352,001	1,352,001	23,446,122
Medium (IR 3)	-	-	-	-	-	-	613,683	613,683	-
High (IR 4,5)	-	-	-	-	-	-	1,965,684	1,965,684	23,446,122
<b>Total</b>	-	-	-	-	-	-	-	-	-

Undue uncorrected receivables for a high level of risk related to receivables from the Republic of Serbia of the basis of the interest on subsidized loans maturing in the next period.  
December 31, 2014

	September 30, 2015								
	Housing loans	Cash loans	Agricultural loans	Other loans	Micro business	Total retail	Corporate customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	2,313,323	2,313,323	27,510,292
Medium (IR 3)	-	-	-	-	-	-	-	-	22,935
High (IR 4,5)	-	-	-	-	-	-	2,313,323	2,313,323	-
<b>Total</b>	-	-	-	-	-	-	-	-	-

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

	September 30, 2015								
	Housing loans	Cash loans	Agricultural loans	Other loans	Micro business	Total retail	Corporate customers	Total	Due from Banks
Up to 30 days past due	-	-	-	-	-	-	777,744	777,744	7,308
31 - 90 days past due	-	-	-	-	-	-	270,821	270,821	-
Over 90 days past due	-	-	-	-	-	-	1,048,565	1,048,565	-
<b>Total</b>	-	-	-	-	-	-	-	-	-

Due uncorrected receivables with a delay over 90 days related to receivables from the Republic of Serbia on the basis of interest on subsidized loans.

	December 31, 2014								
	Housing loans	Cash loans	Agricultural loans	Other loans	Micro business	Total retail	Corporate customers	Total	Due from Banks
Up to 30 days past due	-	-	-	-	-	-	1,375,310	1,375,310	7,204,378
31 - 90 days past due	-	-	-	-	-	-	181,996	181,996	-
Over 90 days past due	-	-	-	-	-	-	1,557,306	1,557,306	-
<b>Total</b>	-	-	-	-	-	-	-	-	-

#### 5.1.2. *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 Bank decides 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 deteriorated suggesting that the debtor will be able to settle the rescheduled liabilities according to the subsequently agreed repayment terms. Receivables are rescheduled if due from debtors up to 90 days in default, most commonly per individual loan subaccount, i.e. not including all the receivables due from the same debtor (not all loan subaccounts).

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

- All balance sheet receivables due 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.

#### 5.1.3. *Concentration Risk*

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

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

#### 5.1.4. *Credit Risk Hedges (Collaterals)*

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

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

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

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, or more frequently, as appropriate.

This is how the bank protects itself from potential losses arising from inability to collect its receivables from collateral foreclosure.

The Bank monitors and updates 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.

## 5.2. Liquidity Risk

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

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

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

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

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

The Bank's operations are reconciled daily with legally prescribed liquidity ratio and rigid/cash liquidity ratio. The legally prescribed minimum and maximum values for these ratios are defined for one working day, three consecutive working days and average for all working days within a month. During the third quarter 2015, the Bank's liquidity and rigid liquidity ratios were significantly in excess of the prescribed limits.

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

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid/Cash Liquidity Ratio	
	30.09.2015.	31.12.2014.	30.09.2015.	31.12.2014.
Average for the period	3.50	2.84	3.26	2.52
Maximum for the period	3.61	3.29	3.26	2.88
Minimum for the period	3.97	4.40	3.62	4.09
	<u>3.50</u>	<u>1.7</u>	<u>3.16</u>	<u>1.51</u>

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	30.09.2015.	31.12.2014.
GAP up to 1 month/Total	Max (10%)	6%	11%
Cumulative GAP up to 3	Max (20%)	7%	12%

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

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

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

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

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

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

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

### 5.3. Market Risk

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

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

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

#### 5.3.1. Interest Rate Risk

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

The Bank manages the following types of interest rate risk:

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

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

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

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



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

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

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

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

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

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

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

	<u>Limits</u>	<u>30.09.2015.</u>	<u>31.12.2014.</u>
Relative GAP	Max 15%	2,74%	0,69%
Mismatch ratio	0.75 – 1.25	1,03	1,01

During 2015, interest rate risk ratios were within internally prescribed limits.

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

**Compliance with internally defined limits of economic value of equity:**

	<u>30.09.2015.</u>	<u>31.12.2014.</u>
As at	8.97%	8.50%
Average for the period	9,29%	8,06%
Maximum for the period	10,00%	10,86%
Minimum for the period	8,89%	4,82%
Limit	<u>20%</u>	<u>20%</u>

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

### 5.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

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

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

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

	<u>30.09.2015.</u>	<u>31.12.2014</u>
Total currency risk balance	3.398.384	938.820
Currency risk ratio	9,24%	2,90%
Legally-defined limit	<u>20%</u>	<u>20%</u>

#### 5.4. Operational Risk

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

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

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

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

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

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

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

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

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

#### 5.5. The Bank's Investment Risks

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

#### 5.6. Exposure Risk

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

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

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

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

#### 5.7. Country Risk

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

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

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

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

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

## 5.8. Capital Management

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

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

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

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

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

### Capital adequacy ratio

	<u>30.09.2015.</u>	<u>31.12.2014.</u>
Core capital	37.548.890	33.286.532
Supplementary capital	4.785.187	4.593.961
Deductible items	<u>(5.555.355)</u>	<u>(5.555.355)</u>
<b>Capital</b>	<b>36.778.722</b>	<b>32.325.138</b>
Credit risk-weighted assets	149.358.168	162.919.928
Operational risk exposure	20.679.815	19.093.050
Foreign currency risk exposure	<u>3.398.482</u>	<u>938.917</u>
<b>Capital adequacy ratio (minimum 12%)</b>	<b>21.21%</b>	<b>17.67%</b>

During the third quarter of the year 2015, the Bank's capital adequacy ratio was in excess of the prescribed regulatory limit of 12%.

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

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

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

## 6. EVENTS AFTER THE BALANCE SHEET

A) 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 fourth quarter of 2015.

B) On 27.10.2015 the extraordinary session of the General Meeting of Bank's Shareholders was held at which the decision was rendered on appointment of Deloitte for the external auditor of the Bank.

C) On 19.10.2015, by forced collection performed by the National Bank of Serbia the payment was made as per the court decision (Cuba) in favour of Inex Interexport bankruptcy estate from Belgrade in the amount of RSD 560,837 thousand, on the following grounds:

- Principal RSD 244,461 thousand
- interest RSD 311,628 thousand and
- costs of court proceedings and forced collection by NBS RSD 4,748 thousand

D) By the Decision of the Commercial Court in Belgrade 3-CT 240/2015 dated October 19<sup>th</sup>, 2015, the bankruptcy proceedings were initiated against the debtor VERANO – MOTORS from Belgrade. The obligation of the bankruptcy creditors is to report within 120 days the total claims in bankruptcy estate. The client is among the first thirty by the Bank's exposure level, with net balance sheet receivables in the amount of RSD 1,528,944 thousand.

## 7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet positions in Dinars (RSD) on September 30<sup>th</sup>, 2015 and on December 31<sup>st</sup>, 2014 for certain main currencies are as follows:

Currencies	Official NBS rate	
	2015	2014
USD	106.4910	99.4641
EUR	119.7491	120.9583
CHF	109.4999	100.5472

In Belgrade,  
On 06.11.2015

Persons responsible for drafting the  
financial statements





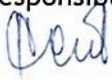
# KOMERCIJALNA BANKA AD BEOGRAD

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VAT number: 134968641  
Activity code: 6419  
Business Registers Agency: 10156/2005  
Account number: 908-20501-70  
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## STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2015 to 30/09/2015 present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the IAS and IFRS, as published by December 31, 2013, which were translated and published in the Official Gazette, in March 2014, pursuant to the decision by the Finance Minister.

Persons responsible for the preparation of financial statements

  
Snežana Pejčić  
Director of the  
Accounting Division



  
Savo Petrović  
Executive Director for  
Finance and Accounting