QUARTERLY REPORT OF KOMERCIJALNA BANKA AD BEOGRAD FOR Q3 2018

Belgrade, November 2018

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QUARTERLY REPORT ON THE OPERATIONS OF THE BANK IN Q3 2018

Belgrade, November 2018

CONTENTS

The Quarterly Report for Q3 2018 is a faithful representation of the financial results of KOMERCIJALNA BANKA AD Belgrade in Q3 and in the first nine months of 2018.

1. OVERVIEW OF KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2018

DESCRIPTION	30/09/18	31/08/18	31/07/18	30/06/18	31/03/18	2017	2016
INCOME STATEMENT (RSD 000)							
Profit/loss before tax	6,511,704	5,601,027	4,887,818	3,620,749	1,986,846	7,187,250	-8,377,636
Net interest income	9,568,106	8,532,810	7,451,209	6,229,880	3,098,218	12,446,197	13,462,734
Net fee income	3,863,640	3,442,197	3,007,604	2,553,018	1,201,560	5,082,227	4,817,314
Operating expenses	7,780,991	6,925,053	6,077,812	5,210,834	2,600,897	10,833,081	11,086,858
Net income (+)/expense (-) of indirect loan write—offs and provisions	167,751	-100,110	-132,019	-35,188	231,041	17,883	-14,907,539

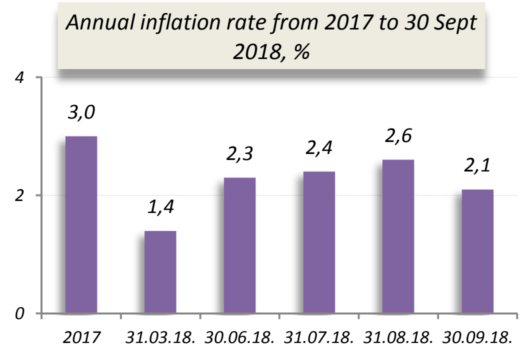
DESCRIPTION	30/09/18	31/08/18	31/07/18	30/06/18	31/03/18	2017	2016
BALANCE SHEET (RSD 000)							
Balance sheet assets	389,695,845	389,740,798	381,616,778	380,551,714	367,061,517	369,183,538	400,017,469
Off-balance sheet assets	495,178,819	479,703,582	462,978,916	468,241,625	468,142,986	474,428,780	520,370,274
RETAIL							
Loans[1]	90,754,546	89,936,852	88,405,074	87,219,022	83,705,499	81,712,222	75,522,465
Deposits[2]	256,014,885	254,171,435	251,488,778	249,739,581	244,420,569	241,210,420[3]	231,312,395
CORPORATE							
Loans	73,328,803	68,625,104	73,804,341	75,002,636	69,431,410	71,725,704	74,083,897
Deposits	44,214,309	48,191,855	44,417,513	43,615,979	39,009,674	41,371,592[4]	78,300,568

RATIOS	30/09/18	31/08/18	31/07/18	30/06/18	31/03/18	2017	2016
LOANS/DEPOSITS RATIO							
Gross loans/deposits (%)	59.82	57.60	61.30	61.39	60.72	61.30	58.74
Net loans/deposits (%)	56.14	53.88	57.15	56.19	55.43	56.11	50.70
CAPITAL (RSD 000)	66,039,984	65,072,797	64,345,176	63,074,351	64,328,213	63,260,055	55,424,302
Capital adequacy (%)	29.18	30.04	29.73	29.31	28.18	27.89	26.97
Number of employees	2,792	2,796	2,801	2,809	2,821	2,806	2,858
PROFITABILITY RATIOS							
ROA (%)	2.3	2.2	2.2	1.9	2.2	1.9	-2.1
ROE – on total capital (%)	13.6	13.2	13.2	11.5	12.5	11.9	-13.9
Net interest margin on total assets (%)	3.38	3.41	3.42	3.35	3.36	3.28	3.30
Cost / income ratio (%)	57.93	57.83	58.11	59.3	60.49	61.80	60.65
Cash operating expenses (RSD 000)	8,201,604	7,478,816	6,758,286	5,473,709	3,199,418	9,231,864	7,987,047
Assets per employee (EUR 000)	1,179	1,179	1,154	1,147	1,099	1,111	1,134
Assets per employee (RSD 000)	139,576	139,392	136,243	135,476	130,118	131,569	139,964

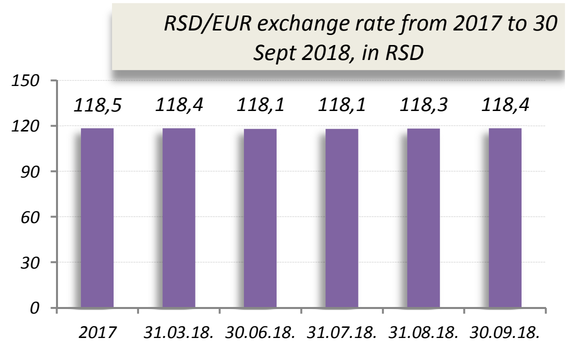
1 The position *Loans* (retail and corporate) does not include other loans and receivables
2 The position *Deposits* does not include other liabilities and assets received from credit lines
3 As of 1 January 2018, microclient deposits have been transferred from the Corporate business function to the Retail business function, which is why the data published in the Annual Report differ – adjustments were made to ensure comparability between 2017 data and 2018 data
4 See above

2. MACROECONOMIC BUSINESS CONDITIONS IN THE PERIOD BETWEEN 1 JANUARY AND 30 SEPTEMBER 2018

The trend of inflation moving within the limits of the target rates until the end of 2018 (3.0%±1.5pp) was continued in Q3 2018. The y-o-y inflation rate at the end of Q3 2018 was 2.1%. The y-o-y inflation rate was initially increasing, but in Q3 it saw a decline due to the seasonal drop in holiday package prices and lower raw food prices. On the other hand, prices of fresh fruit and oil products increased.



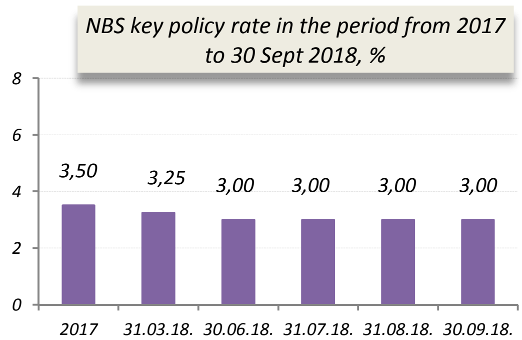
In Q3, the exchange rate of the dinar against the euro did not fluctuate much. The exchange rate was stabilised at approximately 118 dinars for one euro. Interventions by the National Bank of Serbia (NBS) on the interbank foreign exchange market (IBFEM) have also contributed to the stable dinar (net purchase of approx. EUR 1,595 million by the end of Q3 2018).



From the end of 2017 to the end of Q2 2018, the NBS gradually lowered the key policy rate (KPR). Currently (in October), the NBS keeps the KPR at 3.0%. This decision was made in view of the expected inflation in the coming months. Until the end of the year and in the next two years, inflation is expected to remain around the central target value (3.0%).

The NBS expects the economy growth rate to be 4.0% (vs. the planned figure of 3.5%), supported by increased lending by banks and higher FDI inflow.

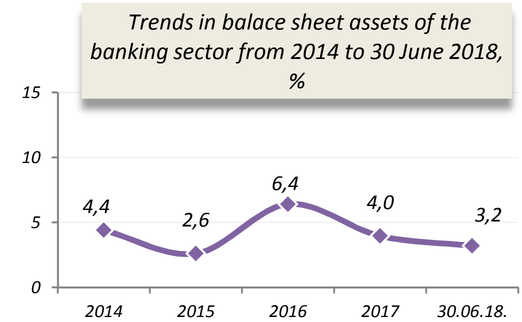
Events in the international environment, trends in international oil cost and the expected more stringent monetary policy of the US Federal Reserve call for further caution in managing the monetary policy. The spread of new protectionism in international trade has contributed to a new uncertainty in the international financial market.



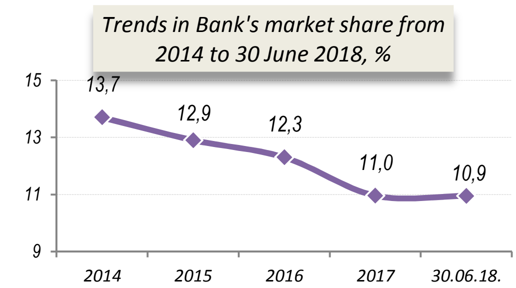
3. BANKING SECTOR AND BANK'S FINANCIAL POSITION

At the end of Q2 2018, the banking sector in the Republic of Serbia comprises 28 banks in total, with total assets of 3,476.4 billion dinars and total capital of 663.4 billion dinars. The ten largest banks measured by balance sheet assets account for 78.7% of total assets of the sector. The net result before tax in the banking sector was 3.4% higher in the first semester of 2018 relative to the same period last year. Capital adequacy of the banking sector at the end of Q2 2018 was 22.9%[3]. According to the available unaudited financial statements, the Bank ranked third in the banking sector at the end of Q2 measured by the volume of balance sheet assets and fifth measured by profit before tax.

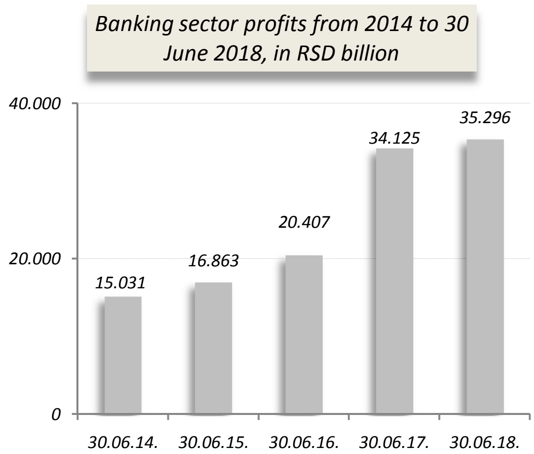
Serbia's banking sector saw a mild increase in balance sheet assets at the end of Q2 2018 relative to 2017 year-end, by 3.2%. Total capital of the sector at the end of Q2 2018 was down 0.6% relative to 2017 year-end.



Owing to its continued stable business activities during Q2 of the current year, the Bank has mostly retained its share of 10.9% in the total banking sector balance sheet assets and 9.5% in the total banking sector capital in Serbia at the end of Q2 2018 relative to 2017 year-end.



As at 30 June 2018, the sector generated a positive net financial result before tax of 35.3 billion dinars. During the observed period, 24 banks operated positively with total profits of 36.0 billion dinars, while 4 banks had a negative result, with a total loss of 0.7 billion dinars.



3 NBS, Key Macroprudential Indicators of Serbia

4. ORGANISATIONAL STRUCTURE AND BODIES OF THE BANK

The Board of Directors of the Bank was formed in accordance with the Law on Bank and the Shareholder Agreement between the Republic of Serbia and the Consortium of International Financial Institutions (EBRD, IFC, DEG, SwedFund). It consists of eight members, including the Chairperson, and two of those members are persons independent from the Bank. Members of the Board of Directors are appointed by the General Meeting of Shareholders for a four-year term.
The powers of the Board of Directors of the Bank are set out in Article 73 of the Law on Bank and Article 27 of the Articles of Association of the Bank. Members of the Board of Directors of the Bank as at 30 September 2018 are the following:

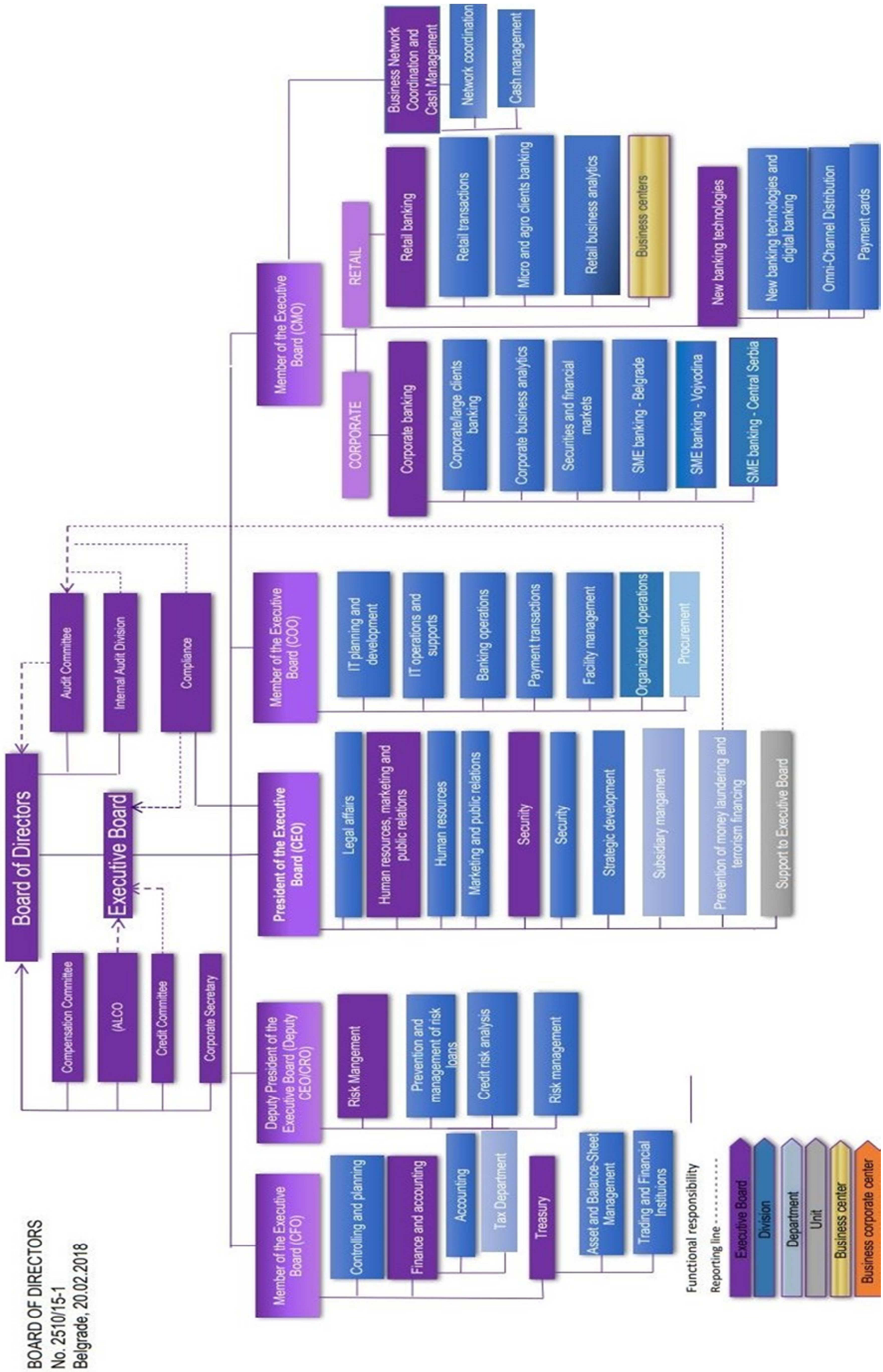
FIRST AND LAST NAME	POSITION
Mila Korugić Milošević	Chairperson of the Board of Directors
Mirjana Ćojbašić	Member representing the Republic of Serbia
Marija Sokić	Member representing the Republic of Serbia
Andreas Klingen	Member representing the EBRD
Philippe Delpal	Member representing the EBRD
Khosrow Zamani	Member representing the IFC
Olivera Matić Brbora	Independent member
Javed Hamid	Independent member

The Executive Board consists of the President of the Executive Board, the Deputy President of the Executive Board and members. The term in office of members of the Executive Board, including the President and the Deputy President, is four years of the date of appointment.
The powers of the Executive Board are set out in Article 76 of the Law on Banks and Article 31 of the Articles of Association of the Bank.
Members of the Executive Board of the Bank as at 30 September 2018 are the following:

FIRST AND LAST NAME	POSITION
Vladimir Medan, PhD	President
Slađana Jelić	Deputy president
Dragiša Stanojević	Member
Miroslav Perić, PhD	Member

The Audit Committee of the Bank consists of three members, two of whom are members of the Board of Directors of the Bank with relevant experience in the field of finance. One member of the Audit Committee is a person independent from the Bank. Members of the Audit Committee are appointed for a four-year term.
The duties of the Audit Committee are set out in Article 80 of the Law on Banks and Article 34 of the Articles of Association of the Bank. Members of the Audit Committee as at 30 September 2018 are the following:

FIRST AND LAST NAME	POSITION
Mirjana Ćojbašić	Chairperson
Andreas Klingen	Member
Milena Kovačević	Member



Note: Organisational chart of the Bank as at 30 September 2018

In Q1 2018, the Bank carried out a reorganisation of its Corporate business function to improve efficiency, effectiveness and productivity.

The reorganisation of the Corporate business function was carried out on 2 March 2018 and included:

- Organisational changes,
- HR changes,
- Changes in business processes and activities, and
- Changes in management structure.

The reorganisation has resulted in fewer organisational units in the SME segment. Instead of the previous five Corporate Business Centres (Belgrade, Novi Sad, Užice, Niš, Kragujevac) have been reorganised into three SME Business Centres (Belgrade, Vojvodina and Central Serbia).
In addition, the Bank has also decentralised the credit analysis process in order to expedite the lending process and ensure more efficient operations. Instead of being centralised, credit analysis has been merged with the sales function within the teams subordinated to the SME Business Divisions.
To ensure that the planned objectives are achieved, the planned budgets for the execution of business activities have been delegated to Divisions and the teams within Divisions, so Directors of Divisions and team leaders are responsible for execution of the allocated budgets.

5. *FINANCIAL POSITION AND PERFORMANCE OF THE BANK BETWEEN 1 JANUARY AND 30 SEPTEMBER 2018*

DESCRIPTION	30/09/18	31/08/18	31/07/18	30/06/18	31/03/18	2017	2016
BALANCE SHEET (RSD 000)							
Balance sheet assets	389,695,845	389,740,798	381,616,778	380,551,714	367,061,517	369,183,538	400,017,469
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Loans	73,328,803	68,625,104	73,804,341	75,002,636	69,431,410	71,725,704	74,083,897
Deposits	44,214,309	48,191,855	44,417,513	43,615,979	39,009,674	41,371,592[7]	78,300,568

As at 30 September 2018, balance sheet assets of the Bank amounted to 389,695.8 million dinars and were 20,512.3 million dinars or 5.6% higher compared to 2017 year-end.

Off-balance sheet assets were increased by 4.4% in Q3 2018 and reached 495,178.8 million dinars at the end of September this year.

4 The position *Loans* (retail and corporate) does not include other loans and receivables
5 The position *Deposits* does not include other liabilities and assets received from credit lines
6 As of 1 January 2018, microclient deposits have been transferred from the Corporate business function to the Retail business function, which is why the data published in the Annual Report differ – adjustments were made to ensure comparability between 2017 data and 2018 data
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In the first nine months of 2018, the Bank reduced its indebtedness through credit lines by 4,234.6 million dinars relative to the balance at 2017 year-end (-57.3%). In the same period, the Bank saw an increase in deposits (excluding other liabilities and credit lines) by 18,710.2 million dinars or 6.5%. The structure of this change was such that retail deposits were increased by 14,804.5 million dinars, while corporate deposits (by companies and financial organisations) were increased by 3,905.7 million dinars. These changes also include the effect of stabilisation of the dinar against the euro and depreciation against the Swiss franc (2.7%) from the beginning of the year to the end of Q3 2018.

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INCOME STATEMENT (RSD 000)							
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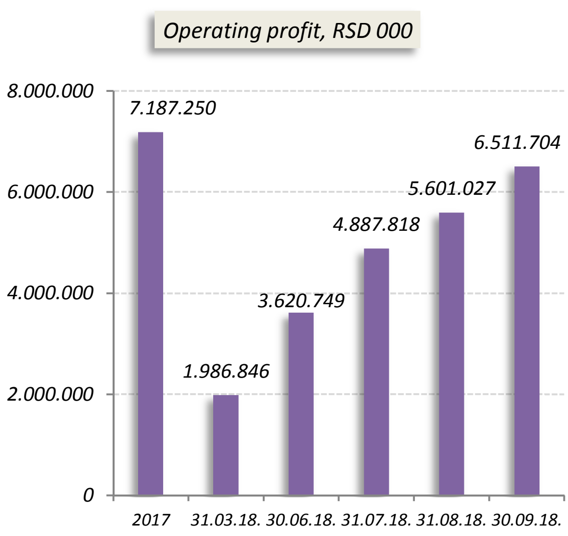
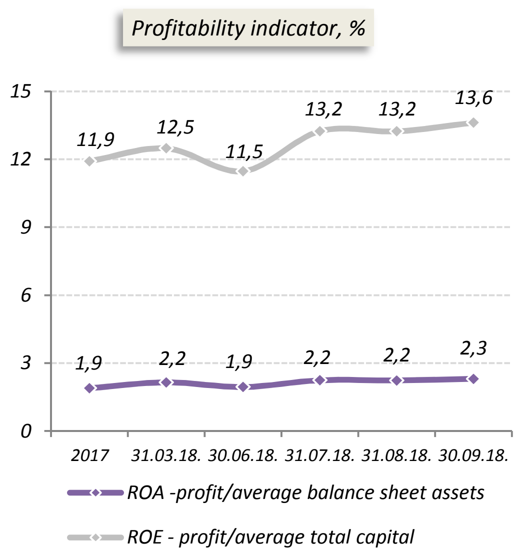
Net income (+)/expense (-) of indirect loan write—offs and provisions	167,751	-100,110	-132,019	-35,188	231,041	17,883	-14,907,539
PROFITABILITY RATIOS							
ROA (%)	2.3	2.2	2.2	1.9	2.2	1.9	-2.1
ROE – on total capital (%)	13.6	13.2	13.2	11.5	12.5	11.9	-13.9
Net interest margin on total assets (%)	3.38	3.41	3.42	3.35	3.36	3.28	3.30
Cost / income ratio (%)	57.93	57.83	58.11	59.33	60.49	61.80	60.65
Cash operating expenses (RSD 000)	8,201,604	7,478,816	6,758,286	5,473,709	3,199,418	9,231,864	7,987,047
Assets per employee (000 EUR)	1,179	1,179	1,154	1,147	1,099	1,111	1,134
Assets per employee (RSD 000)	139,576	139,392	136,243	135,476	130,118	131,569	139,964





In first nine months of this year, the Bank earned higher profit than in the same period last year. Profit before tax in the period from 1 January to 30 September 2018 was 6,511.7 million dinars – an increase of 813.6 million dinars (14.3%) compared with the same period last year. As a result of this profit, at the end of Q3 2018 the Bank generated a return on total capital of 13.6% and a return on balance sheet assets of 2.3%.

The higher profit in Q3 2018 relative to the same period last year was due to the reduction in other income by 470.7 million dinars and the profit arising from derecognition of financial instruments carried at depreciated value in the amount of 526.5 million dinars (sale of two NPLs). Furthermore, the Bank also generated net income from impairment of financial assets not carried at fair value in the amount of 167.8 million dinars, as opposed to the expense of 216.9 million dinars posted in the same period last year. Other positive effects include an increase in net profit from derecognition of financial instruments carried at fair value in the amount of 97.8 million dinars and an increase in net profit from change in fair value of financial instruments in the amount of 38.0 million dinars.

As a result of the increased volume of operations, coupled with an insignificant change in the number of employees in the first nine months of 2018, assets per employee at the Bank were increased from 131.6 million dinars (31 December 2017), to 139.6 million dinars at the end of Q3 2018.

At the end of Q3 of the current year, the cost-to-income ratio (CIR) was 57.93%, while at the end of 2017 it was 61.80%.

5.1. Retail Business

In Q3, retail business continued with the positive trends seen in the previous period and achieved outstanding results on most indicators. The Bank introduced new products and improved procedures and technological solutions, which contributes to higher customer satisfaction as a result of improved products and faster loan approval.

Loans

In the first nine months of 2018, we disbursed 34.3 billion dinars in loans, which was 15.1% more than in the same period last year. Disbursement in Q3 was approximately the same as in Q2 at approx. 12 billion dinars, which can be seen as a good result given that it was the holiday season.

Disbursement was higher across all segments compared with the first nine months of last year.

The highest increase in loan disbursement was seen in **home loans** (37%), as the current offering was improved compared with last year's and tailored to customer's needs. The current offering was also additionally improved to adapt to market circumstances. This year, the Bank continued approving subsidised loans to professional servicemen, thus gradually increasing its lending to this customer segment. Furthermore, given the downward market trend of interest rates, the Bank has been applying a customer retention policy in order to preserve the quality and the amount of its portfolio.

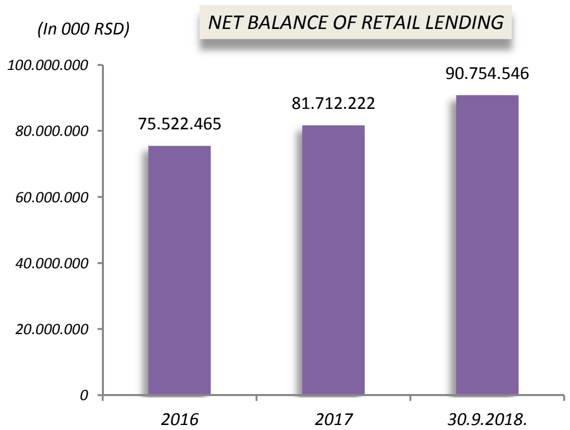
In the **cash loan** segment, disbursement was increased by 11%. It is the segment with the strongest competition, where the offering is based on high amounts and long repayment terms without "solid" collateral or surety, at favourable interest rates. Furthermore, the offering is increasingly based on personalised offers targeting specific customer groups, especially customers with higher income. Much attention is also paid to loans to pensioners, as they account for a significant share of total customers. In Q3 2018, the Bank continued increasing its market share in the cash loan segment, reaching 7.4% (according to the most recent data available as at 31 August 2018).

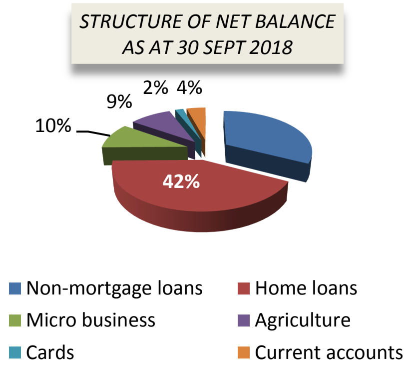
In **agribusiness**, loan disbursement was 16% higher compared with the same period last year. Since the beginning of March this year, the offering has included attractive products, which have been fully taken up by the market in Q2 and Q3 of the current year. As usual, the loans offered by the Bank had a dominant share in Q1, while Q2 and Q3 saw a significant share of subsidised loans disbursed in cooperation with the Ministry of Agriculture, Forestry and Water Management, local self-governments and agricultural machinery dealers. In agreement with the Ministry of Agriculture, Forestry and Water Management, the Bank has been actively involved in promoting and supporting the funding of projects under the EU IPARD funds. In Q3 2018, the Bank continued increasing its market share in the agricultural loan segment, reaching 13.9% (according to the most recent data available as at 31 August 2018).

Disbursement in the **micro business** segment was increased by 16% owing to regular and specially designed promotional products, which improved the quality of our offering. This segment includes sole traders and micro companies. There are no market data available for micro companies, while in the sole trader segment the Bank retained its market share at 9.1% in Q3 2018 (according to the most recent data available as at 31 August 2018).

Since the beginning of the year, the largest share of disbursed loans was that of cash loans (accounting for 52% of total disbursement), followed by micro business loans (24%), agricultural loans (13%) and home loans (11%). Out of the total number of disbursed loans, 65% did not have a currency clause, and most of them were cash loans.

All this resulted in an increase in the net balance of retail lending by 9.0 billion dinars relative to 31 December 2017. In the structure of the net balance, the share of home loans has been declining, while the shares of other, more profitable products have been increasing.

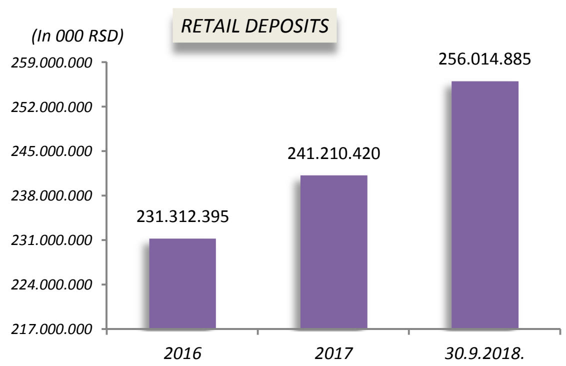




Deposits[8]

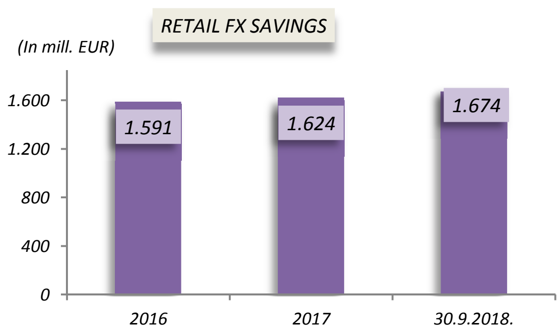
In the first nine months of 2018, retail deposits were increased by 14.8 billion dinars. Growth in Q1 accounted for 3.2 billion dinars of that increase, Q2 accounted for 5.3 billion dinars, while Q3 accounted for 6.3 billion dinars.

8 The position *Deposits* does not include other liabilities and funds received through credit lines



In the first eight months of 2018, total FX retail deposits in Serbia's banking market (excluding micro companies) increased by 376 million euros, while the Bank, with the growth of 55 million euros, retained its position as market leader, with a market share of 18.6%. (according to the most recent data available as at 31 August 2018).

Looking at classic foreign exchange retail savings, it increased by 50.5 million euros in the first nine months of this year, or 12.4; 18.3 and 19.8 million euros in Q1, Q2 and Q3 respectively.



*FX savings presented here do not include special-purpose FX accounts (pensioners) and sole traders

In the structure of retail FX savings, the share of time deposits (with a term of 12 months or longer) has declined slightly to 32%, while the share of sight deposits has increased to 64%. Most of the savings deposits are up to 50,000 euros (more than 99% in terms of number and 76% in terms of amounts).

After several years of declining, borrowing interest rates on retail FX savings are currently stagnating (-0.25% as at 31 December 2017 and -0.22% as at 30 September 2018). In the near future, borrowing interest rates are expected to continue stagnating or see a modest increase. The Bank is still recognised by customer as an institution of highest trust and deposits continue increasing constantly.

Other products

The focus is on increasing the number of customers across all segments, especially in the most important segment – natural persons with regular income received on their current account (we currently have approx. 405,000 customers). These customers are the core of our retail business and provide the basis for lending growth, including in particular authorised current account overdrafts, which are our most profitable product and are used by one in three customers.

"Account sets" for micro businesses, which were first introduced in late 2017, have fully taken off in 2018 (approx. 8,000 customers opened an "account set" in the first nine months). Retail "account sets" have continued conquering the market, with approx. 74,000 "account sets" opened in the first nine months of 2018. As part of our continuing effort to digitalise our operations, we have implemented a new product, "Kom4Pay", which offers online payment for the users of e-banking. We have also established cooperation with "RIA Money Transfer".

Business Network

We operate in the retail segment through 202 outlets, which makes us the market leader in terms of coverage and accessibility to customers. Customers have at their disposal 272 ATMs and approx. 13,500 POS terminals, which also makes us one of the market leaders. Taking into account the needs of its customers, the Bank has continued its efforts to improve customer experience by redesigning its outlets, relocating to new offices, adapting its working hours etc.

Profitability

As a result of all activities that have been undertaken, the retail segment generated net interest and fee income of 7,324.3 million dinars, which was an increase of 9.2% compared with the same period last year.

5.2. Corporate Business

Market – Main Trends

In Q3 2018, the downward trend of dinar interest rates continued, notwithstanding the fact that the key policy rate was stabilised. Interest rates on FX-indexed loans also continued declining.

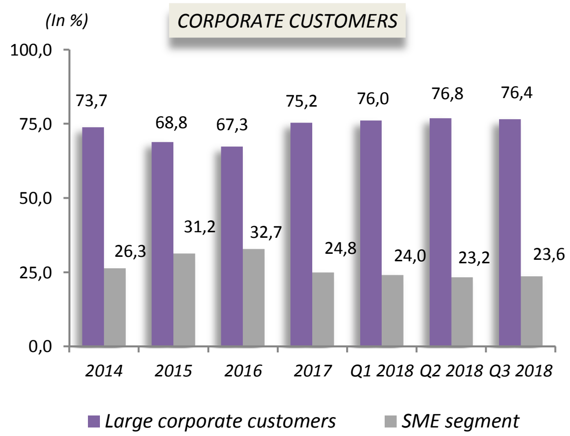
Credit standards applied by banks to newly-approved loans to corporate customers, which had been lowered in 2017 and in the first half of 2018, remained unchanged in Q3 2018, especially in relation to SMEs and, to a lesser extent, large companies. In terms of maturity and currency, standards have been lowered for short-term and long-term corporate loans, as well as short-term FX-indexed corporate loans. Banks are also increasingly willing to accept risk when borrowing to corporate customers (especially with regard to loan collateralisation).

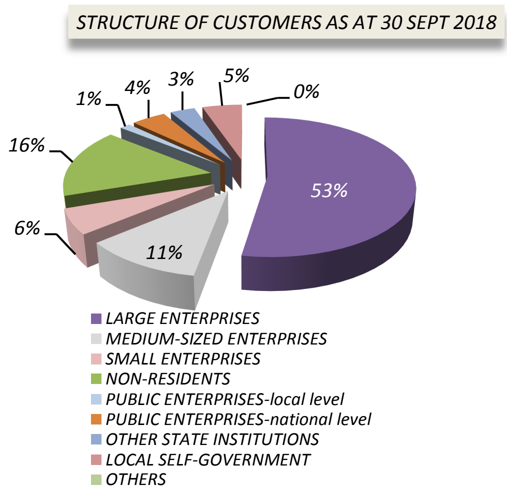
In Q3 2018, after an initial decline, corporate lending was stabilised. At banking sector level, net gross loans are higher than at 2017 year-end (total ending to companies and public enterprises increased by 0.2%, which translates to 2.2 billion dinars).[9]

Loans[10]

Disbursement of newly-approved loans in 2018 was 3.8 billion dinars higher than in the same period of 2017 (0.7 billion dinars lower in the large corporate segment and 4.5 billion dinars higher in the SME segment). In the Bank's portfolio, the share of large corporate customers increased from 75.2% (at 2017 year-end) to 76.4%.

9 NBS, Consolidated Banking Sector Balance, August 2018
10 The position *Loans and Deposits* does not include other investment



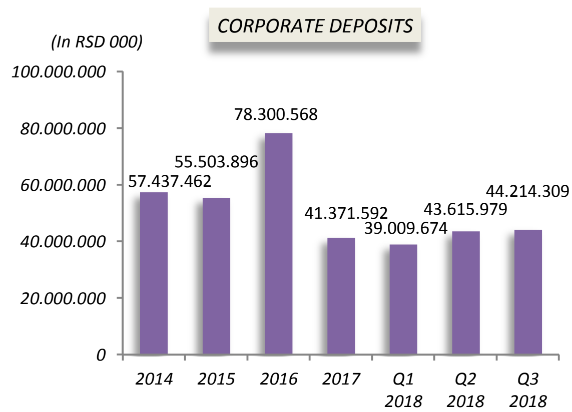


The interest rate on EUR-indexed loans is still significantly lower than that on dinar-denominated loans, which, given the stable exchange rate, pushed the market towards greater demand for FX-indexed loans relative to dinar loans. As a result, the share of dinar loans in the portfolio at the end of Q3 2018 remained low at just 8.9%.

As regards competition, the most active banks in Q3 2018 were Banca Intesa a.d. Beograd, UniCredit banka Srbija a.d. Beograd, Raiffeisen banka a.d. Beograd, Societe Generale Banka a.d. Beograd, with the occasional market promotions by ProCredit a.d. Beograd and Erste banka a.d. Novi Sad. It is evident that all competitors have applied a more flexible approach (interest rates, maturities, required collateral) when approving loans.

Deposits [11]

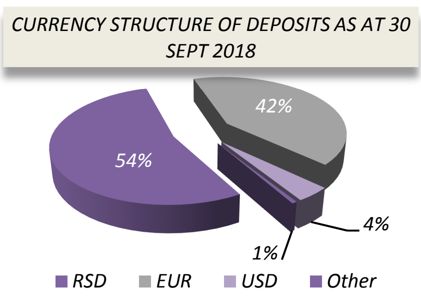
The high share of transaction deposits, which account for 69% of total corporate deposits, has resulted in lower interest expenses and has had positive effects on the Bank's bottom line.

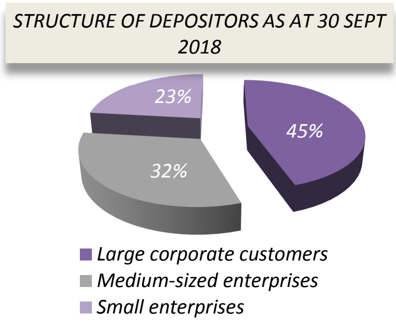


The amount of corporate deposits in 2018 was also influenced by the Bank's decision to record deposits by micro clients, in the amount of 11.2 billion dinars, as retail deposits starting from 1 January 2018.

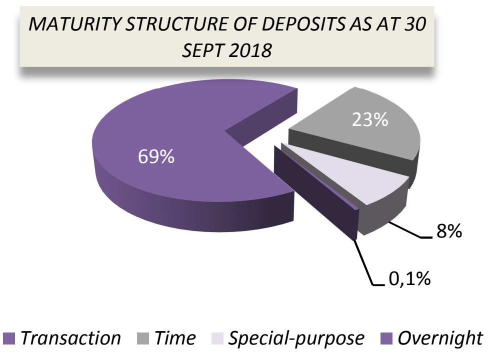
Note: The amount of corporate deposits as at 31 December 2016 was influenced by one single deposit.

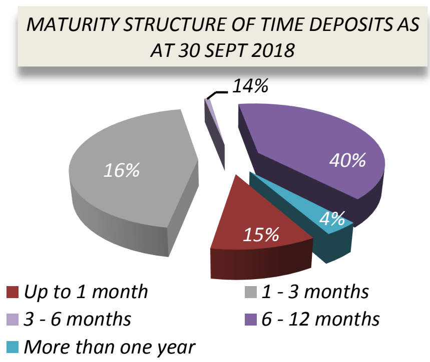
11 The position Deposits does not include other liabilities and funds received through credit lines





Note: The structure of depositors is presented according to the internal segmentation of customers.





5.3. Asset Management – Treasury

The activities of the Treasury business function are focused on active management of assets and liquidity, while at the same time also ensuring normal functioning of the Bank and its customers and compliance with all regulatory requirements.

In Q3 2018, the National Bank of Serbia kept the key policy rate at 3.0%, while yield on Serbian government securities continued declining due to the lower volume of auctions and the significantly lower market supply. Foreign markets are still characterised by negative interest rates on EUR and CHF, which posed a major challenge in liquidity management given the available assets. FED (the US Federal Reserve) increased the key policy rate on USD by an additional 0.25 p.p. to currently 2.25%, thereby creating a significant difference relative to European currencies. This key policy rate is expected to increase further by the end of the year.

In 2018, the Bank's liquidity position was very stable. In Q3 2018, its generated statutory reserve in dinars was 100.05%, while its generated statutory FX reserve was 100.21%. The remaining liquid assets were invested mainly in government securities of the Republic of Serbia, as well as through seven-day reverse REPO transactions and overnight deposits with the National Bank of Serbia and short-term borrowing in the interbank market.

In Q3 2018, the Bank took part in 3 of the total of 5 primary auctions of dinar-denominated government securities. There were no auctions of EUR-denominated government securities. Furthermore, having executed 34 transactions, in Q3 2018 the Bank was a major participant in the secondary market for government securities of the Republic of Serbia.

All of these activities have resulted in income exceeding the planned figures.

The strategy of the Treasury function in the coming months will include prudent investment of liquid assets in risk-free and low-risk financial instruments, improvement of the transfer price methodology and collaborative work on expanding the deposit base of customers to obtain new sources of finance.

6. BALANCE SHEET AS AT 30 SEPTEMBER 2018

6.1. Assets of the Bank as at 30 September 2018

(RSD 000)

NO.	DESCRIPTION OF BALANCE SHEET POSITION	30 Sept 2018	31 Dec 2017	INDEX
1	2	3	4	5=3/4
1	Cash and assets with the central bank	52,340,197	49,840,887	105.0
2	Pledged financial assets	-	-	-
3	Receivables arising from derivatives	1,380	-	-
4	Securities	131,899,460	117,288,767	112.5
5	Loans to and receivables from banks and other financial organisations	22,174,345	29,543,789	75.1
6	Loans to and receivables from customers	164,376,387	153,897,367	106.8
7	Changes in fair value of hedged items	-	-	-
8	Receivables arising from derivatives intended for hedging	-	-	-
9	Investment in affiliates and joint ventures	-	-	-
10	Investment in subsidiaries	2,611,859	2,611,859	100.0
11	Intangible assets	397,330	460,263	86.3
12	Property, plant and equipment	5,480,926	5,655,248	96.9
13	Investment property	1,912,870	1,988,608	96.2
14	Current tax assets	-	-	-
15	Deferred tax assets	1,403,452	857,096	163.7
16	Non-current assets held for sale and discontinued operations	241,148	241,148	100.0
17	Other assets	6,856,491	6,798,506	100.9
	TOTAL ASSETS (1 to 17)	**389,695,845**	**369,183,538**	105.6

The Bank's balance sheet assets at the end of Q3 2018 were increased by 20,512.3 million dinars or 5.6%. The largest increase in the structure of the balance sheet positions presented above was that of securities, which was increased by 14,610.7 million dinars or 12.5% the first nine months of 2018. The bulk (more than 83%) of this increase can be attributed to the increase in available-for-sale securities, namely dinar-denominated government bonds of the Republic of Serbia (which were increased by 12,197.6 million dinars).

Loans to and receivables from customers were increased by 10,479.0 million dinars or 6.8%, while loans to and receivables from banks and other financial organisations were reduced by 7,369.4 million dinars. As at 30 September 2018, total loans and advances to and receivables from customers and banks amounted to 186,550.7 million dinars, which was 47.9% total balance sheet assets.

In the first nine months of 2018, the position cash and assets with the central bank saw an increase of 2,499.3 million dinars or 5.0%. The increase in this position was mainly due to the increase in the balance of giro accounts during the observed period by 2,758.3 million dinars. Foreign exchange cash in hand was 919.5 million dinars lower, while dinar cash in hand was 747.5 million dinars lower. Other elements of the cash position (statutory FX reserve and other FX cash) increased by 1,408.0 million dinars.

6.2. Liabilities of the Bank as at 30 September 2018

(RSD 000)

NO.	DESCRIPTION OF BALANCE SHEET POSITION	30 Sept 2018	31 Dec 2017	INDEX
1	2	3	4	5=3/4
1	Liabilities arising from derivatives	-	7,845	-
2	Deposits and other financial obligations to banks, other financial organisations and the central banks	3,634,651	4,532,505	80.2
3	Deposits and other financial obligations to other customers	307,891,297	292,471,640	105.3
4	Liabilities arising from hedging derivatives	-	-	-
5	Changes in fair value of hedged items	-	-	-
6	Liabilities arising from securities	-	-	-
7	Subordinated liabilities	-	-	-
8	Provisions	1,528,908	1,368,051	111.8
9	Liabilities arising from non-current assets held for sale and discontinued operations	-	-	-
10	Current tax liabilities	-	-	-
11	Deferred tax liabilities	610,675	-	-
12	Other liabilities	9,990,330	7,543,442	132.4
	TOTAL OBLIGATIONS (1 to 12)	**323,655,861**	**305,923,483**	105.8
	CAPITAL			-
13	Equity	40,034,550	40,034,550	100.0
14	Own shares	-	-	-
15	Profit	7,390,704	8,137,249	90.8
16	Loss	-	-	-
17	Reserves	18,614,730	15,088,256	123.4
18	Unrealised loss	-	-	-
19	Non-controlling interests	-	-	-
20	**TOTAL CAPITAL (13 to 19)**	**66,039,984**	**63,260,055**	104.4
	TOTAL LIABILITIES (1 to 19)	**389,695,845**	**369,183,538**	105.6

Total obligations of the Bank at the end of Q3 2018 amounted to 323,655.9 million dinars and accounted for 83.1% of total liabilities (vs. 82.9% vas at 31 December 2017). At the same time, total capital was 66,040.0 million dinars and accounted for 16.9% of total liabilities (vs. 17.1% on 31 December 2017). Total obligations increased relative to the end of the previous year by 17,732.4 million dinars or 5.8%, while total capital increased by 2,779.9 million dinars or 4.4%. During the observed period, the Bank increased its reserve by 3,526.5 million dinars or 23.4%.

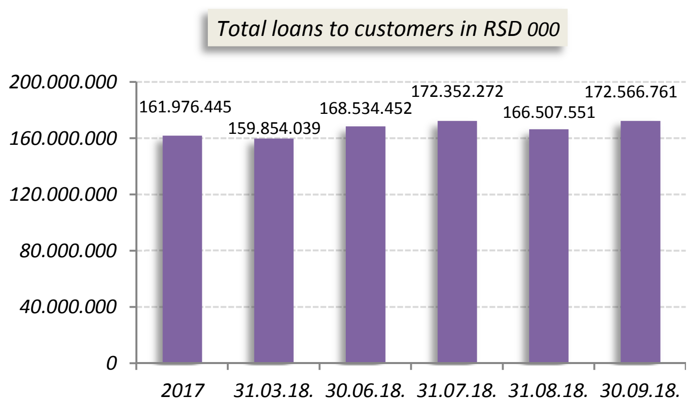
The position deposits and other financial obligations to customers was increased during the reporting period by 15,419.7 million dinars or 5.3%, while the position deposits and other financial obligations to banks was reduced compared with the end of the previous year by 897.9 million dinars or 19.8%.
The position other liabilities increased by 2,446.9 million dinars or 32.4%.

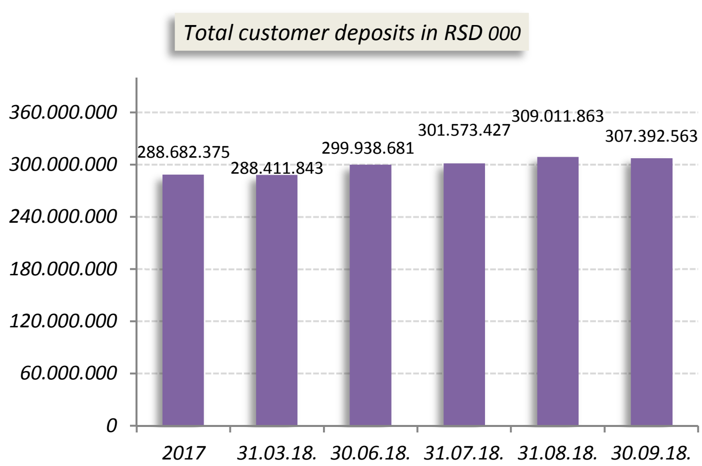
The position provisions increased by 160.9 million dinars during the three quarters of 2018 as a result of an increase in provisions for liabilities and an increase in provisions for losses in off-balance sheet assets in the amount of 114.5 million dinars.

In Q3 2018, foreign credit lines continued declining, with the net equivalent of the decline equalling 4,234.6 million dinars or 57.3%. Thus, the balance of these liabilities in dinar equivalent as at 30 September 2018 was 3,157.6 million dinars.

In the structure of balance sheet liabilities, total deposits and other financial obligations to banks and customers amounted to 311,525.9 million dinars, accounting for 79.9% of total balance sheet liabilities. These liabilities increased by 14,521.8 million dinars or 4.9% relative to the end of the previous year.

6.3. Loans to customers and customer deposits as at 30 September 2018





The most significant category of balance sheet assets, loans to customers (excluding other loans and receivables), saw an increase of 10,590.3 million dinars. The level of approved loans to customers as at 30 September 2018 was heavily influenced by retail loans, which reached 90,754.5 million dinars at the end of Q3 2018 – an increase of 11.1%. Corporate loans reached 73,328.8 million dinars and also saw an increase, by 2.2%. Loans to financial organisations declined by 0.6% to 8,483.4 million dinars.

Total loans to banks, other financial organisations and customers as at 30 September 2018 amounted to 172,566.8 million dinars and were 6.5% higher relative to the end of the previous year.

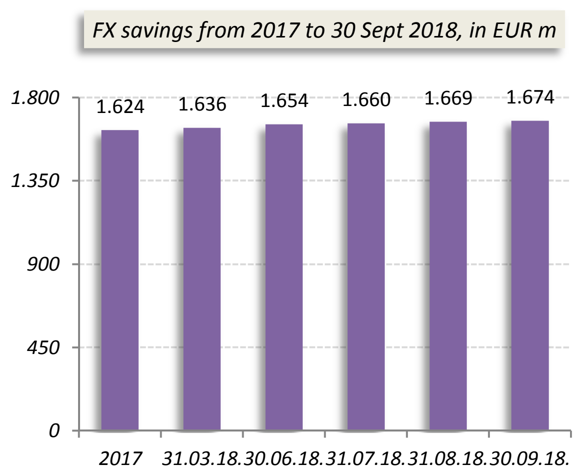
(RSD 000)

NO.	DESCRIPTION	BALANCE AS AT 30 SEPT 2018	BALANCE AS AT 31 DEC 2017	INDEX
1	2	3	4	5= (3:4)*100
I	LOANS TO CUSTOMERS (1.+2.+3.)	172,566,761	161,976,445	106.5
1	Corporate	73,328,803	71,725,704	102.2
2	Retail	90,754,546	81,712,222	111.1
3	Banks and financial organisations	8,483,412	8,538,519	99.4
II	CUSTOMER DEPOSITS (1.+2.+3.)	307,392,563	288,682,375	106.5
1	Corporate	44,214,309	41,371,592	106.9
2	Retail	256,014,885	241,210,420	106.1
3	Banks and financial organisations	7,163,369	6,100,363	117.4

NOTE:

- Loans to customers and customer deposits are presented according to the previous one balance sheet,
- As of 1 January 2018, microclient deposits have been transferred from the Corporate business function to the Retail business function, which is why the data published in the Annual Report differ – adjustments were made to ensure comparability between 2017 data and 2018 data

The change in deposits by banks, other financial organisations and customers (excluding other liabilities and credit lines) in the first three quarters of 2018 was the result of increased retail deposits, corporate deposits and deposits by banks and other financial organisations. Retail deposits increased during the observed period by 14,804.5 million dinars in dinar equivalent, or 6.1%, corporate deposits increased by 2,842.7 million dinars in dinar equivalent, or 6.9%, while deposits by banks and other financial organisations increased by 1,063.0 million dinars in dinar equivalent, or 17.4%.



Enjoying the reputation of a safe and stable bank in the Serbian market, the Bank managed to increase its retail savings deposits during the observed period by 50.5 million euros or 3.1%. Notwithstanding the declining borrowing interest rates, both in the banking sector as a whole and at the Bank, FX savings deposited with the Bank increased during the first three quarters of 2018, reaching 1,674.1 million euros.

Depositors' trust has enabled the Bank to remain the leader in the Serbian banking sector in terms of the volume of FX savings and in terms of image and recognisability.

6.4. Off-balance sheet items in 2018

(RSD 000)

NO.	DESCRIPTION	BALANCE AS AT 30 SEPT 2018	BALANCE AS AT 31 DEC 2017	INDEX
1	2	3	4	5=(3:4)*100
1	TRANSACTIONS ON BEHALF AND FOR THE ACCOUNT OF THIRD PARTIES	4,250,321	4,226,654	100.6
2	GRANTED GUARANTEES AND OTHER WARRANTIES	6,598,156	7,897,227	83.6
3	ASSUMED IRREVOCABLE COMMITMENTS	38,448,701	27,044,199	142.2
4	DERIVATIVES	355,254	592,364	60.0
5	OTHER OFF-BALANCE SHEET ITEMS	445,526,388	434,668,336	102.5
	TOTAL	**495,178,819**	**474,428,779**	104.4

Total off-balance sheet assets of the Bank in Q3 2018 increased by 20,750.0 million dinars relative to the end of the previous year.

Granted guarantees and other warranties were 1,299.1 million dinars relative to the end of the previous year, mainly due to the decline in issued performance bonds.

As at 30 September 2018, assumed irrevocable commitments totalled 38,448.7 million dinars, which was an increase of 11,404.5 million dinars or 42.2% relative to the end of the previous year, mainly due to the increase in assumed irrevocable commitments for undrawn loans and investments.

Derivatives held for trading at agreed value saw a decrease by 237.1 million dinars at the end of Q3.

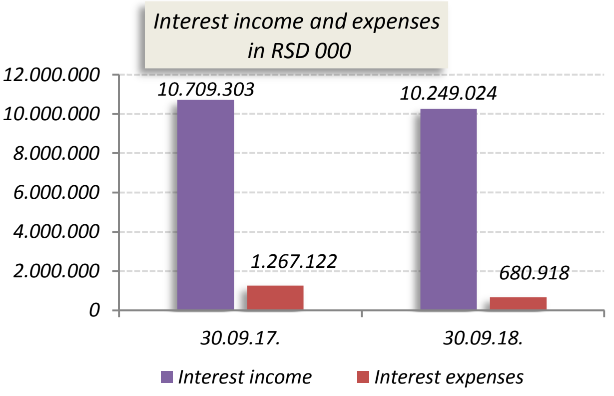
Other off-balance sheet items increased by 10,858.1 million dinars or 2.5% (change in security instruments and financial assets recorded under off-balance sheet items).

7. INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2018

(RSD 000)

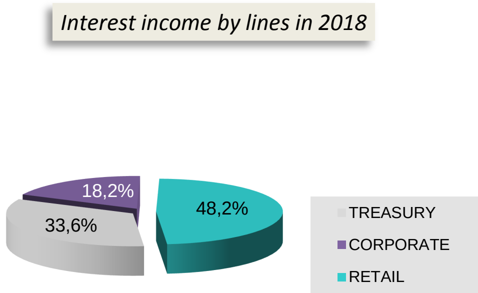
NO.	DESCRIPTION OF BALANCE SHEET POSITION	30 Sept 2018	30 Sept 2017	INDEX
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	10,249,024	10,709,303	95.7
1.2.	Interest expenses	-680,918	-1,267,122	53.7
1.	**Net interest income/expenses**	**9,568,106**	**9,442,181**	101.3
2.1.	Fee and commission income	5,287,750	4,911,470	107.7
2.2.	Fee and commission expenses	-1,424,110	-1,155,426	123.3
2.	**Net fee and commission income/expenses**	**3,863,640**	**3,756,044**	102.9
3.	Net gain/loss arising from change in the fair value of financial instruments	83,578	45,511	183.6
4.	Net gain/loss arising from reclassification of financial instruments	-	-	-
5.	Net gain/loss arising from derecognition of financial instruments carried at fair value	159,958	62,168	257.3
6.	Net hedging gain/loss	-	-	-
7.	Net exchange gain/loss and gain/loss arising from contractual currency clauses	-5,551	-30,219	18.4
8.	Net gain/loss arising from impairment of financial assets not carried at fair value through the Income Statement	167,751	-216,936	-
9.	Net gain/loss arising from derecognition of financial instruments carried at amortisation value	526,547	-	-
10.	Net gain/loss arising from derecognition of investment in affiliates and joint ventures	-	306	-
11.	Other operating income	114,267	123,750	92.3
12.	**TOTAL NET OPERATING INCOME**	**14,478,296**	**13,182,805**	109.8
13.	**TOTAL NET OPERATING EXPENSES**			
14.	Costs of salaries, benefits and other personal expenses	-3,287,044	-3,290,095	99.9
15.	Amortisation cost	-420,845	-428,792	98.1
16.	Other income	221,434	692,165	32.0
17.	Other expenses	-4,480,137	-4,457,981	100.5
18.	**PROFIT BEFORE TAX**	**6,511,704**	**5,698,102**	114.3
19.	**LOSS BEFORE TAX**			
20.	Income tax	-	-	-
21.	Deferred tax gain	-	1,235,813	-
22.	Deferred tax loss	-	-	-
23.	**PROFIT AFTER TAX**	**6,511,704**	**6,933,915**	93.9
24.	**LOSS AFTER TAX**			-
25.	Net profit from discontinued operations			-
26.	Net loss from discontinued operations			-
27.	**RESULT OF THE PERIOD - PROFIT**	**6,511,704**	**6,933,915**	93.9
28.	**RESULT OF THE PERIOD - LOSS**			
29.	Profit belonging to the parent entity			
30.	Profit belonging to non-controlling owners			
31.	Loss belonging to the parent entity			
32.	Loss belonging to non-controlling owners			
33.	Earnings per share			
34.	Basic earnings per share			
35.	Diluted earnings per share			

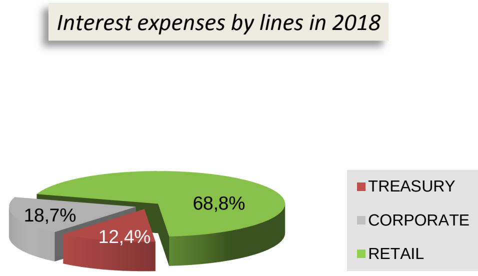
7.1. Interest income and expenses



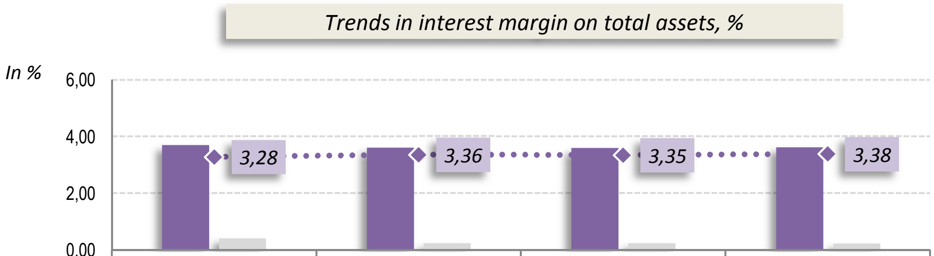
During the first three quarters of 2018, the Bank generated net interest income of 9,568.1 million dinars – an increase of 1.3% compared with the same period last year.

Relative to the same period last year, interest income was 460.3 million dinars or 4.3% lower, while interest expenses were lower by 586.2 million dinars or 46.3%.





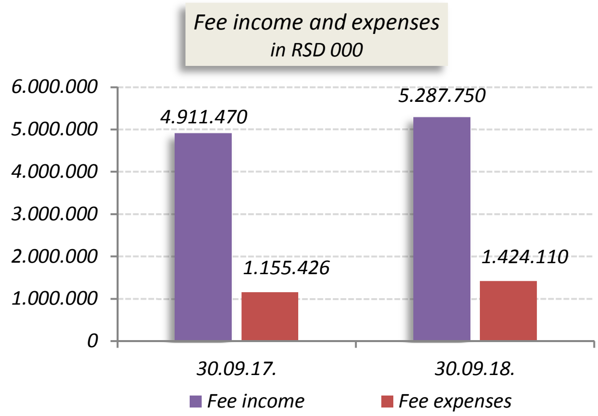
The dominant share in the structure of interest income was that of interest income from retail operations (4,940.5 million dinars or 48.2%). The structure of interest expenses also comprises mainly interest on retail deposits (468.7 million dinars or 68.8%), mainly due to interest expenses for collected FX savings.



	2017	March	June	September
Average lending interest rate	3,70	3,61	3,59	3,62
Average borrowing interest rate	0,42	0,25	0,25	0,24
Average interest rate	3,28	3,36	3,35	3,38

The average lending interest rate at the end of Q3 2018 was 3.62%, while the average borrowing interest rate was 0.24%, which meant the Bank's average interest margin in Q3 2018 was 3.38%, which did not differ significantly from the figures reported in the previous quarters.

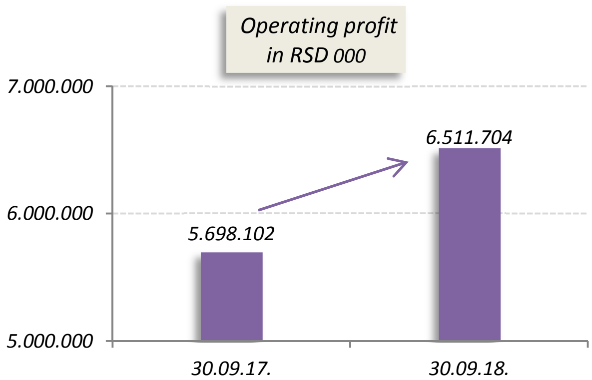
7.2. Fee income and expenses



In the first three quarters 2018, compared with the same period last year, banking fee and commission income was higher by 376.3 million dinars or 7.7%. At the same time, fee and commission expenses also grew by 268.7 million dinars or 23.3%.

Net fee and commission income in the first three quarters of 2018 was 3,863.6 million dinars and was 107.6 million dinars higher than in the same period last year.

7.3. Operating profit



Between 1 January and 30 September 2018, the Bank generated an operating profit of 6,511.7 million dinars – an increase of 813.6 million dinars relative to the same period last year, or 14.3% up.

Income from the sale of NPLs in the amount of 526.5 million dinars, income generated from indirect loan write-off and provisions in the amount of 167.8 million dinars and a reduction in operating expenses were the main contributors to the difference in profit generated in the two periods.

This operating profit meant the Bank had a return on equity of 13.6% and a return on average assets of 2.3% at the end of Q3 2018.

7.4. Performance Indicators set forth in the Law on Banks

NO.	DESCRIPTION	STATUTORY REQUIREMENT	30 SEPT 2018	2017
1.	CAPITAL ADEQUACY RATIO (CAPITAL / RISK WEIGHTED ASSETS); *COMBINED BUFFER REQUIREMENT	MIN 8%+cb*	29.18%	27.89%
2.	RATIO OF INVESTMENT IN NON-FINANCIAL SECTOR ENTITIES AND FIXED ASSETS	MAX 60%	12.91%	14.96%
3.	LARGE EXPOSURE RATIO	MAX 400%	48.91%	34.96%
4.	FOREIGN EXCHANGE RISK RATIO	MAX 20%	3.52%	4.40%
5.	LIQUIDITY RATIO (monthly, last day of the month)	MIN 0.8	4.49	4.30

8. DESCRIPTION OF MAIN RISKS AND THREATS TO WHICH THE COMPANY IS EXPOSED

A detailed breakdown of the main risks and threats to which the Bank will be exposed in the coming months is provided in the chapter “Risk Management” in the Notes to Financial Statements.

9. SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

As at 30 September 2018, related parties of the Bank were the following:

1. Komercijalna banka a.d. Podgorica (Komercijalna banka a.d. Budva to 4 July 2018), Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d. Beograd,
4. And a number of individuals, in accordance with Article 2 of the Law on Banks, which defines the term “related parties of a bank”.

Total exposure to the Bank’s related parties as at 30 September 2018 was 603.9 million dinars (after the application of the credit risk mitigation technique). In relation to the capital of 57,314.2 million dinars, this translates to 1.1% (the upper limit of total loans to all related persons of the Bank under the Law on Banks is set at 25% of its capital).

The largest share of the exposure to related parties of the Bank as at 30 September 2018 was the amount of 417.0 million dinars (after the application of the credit risk mitigation technique), i.e. 0.7% of the Bank’s capital, comprising loans to the company KomBank INVEST a.d. Beograd.

Additional breakdown of the Bank’s relationships with its related parties/subsidiaries is provided in section “Related Parties/Subsidiaries” in the Notes to Financial Statements.

10. DESCRIPTION OF SIGNIFICANT EVENTS

After the end of 2017, significant business events that took place in the first three quarters of 2018 include six General Meetings of Shareholders of the Bank, which were held on 29 January, 14 March, 26 April, 30 May, 31 July and 24 September respectively.

At the General Meeting of Shareholders of the Bank held on 29 January 2018, the following decisions were passed:

1. Decision on release from duty and appointment of a member of the Board of Directors of Komercijalna banka a.d. Beograd.
2. Decision on release from duty and appointment of the Chairperson of the Board of Directors of Komercijalna banka a.d. Beograd.
3. Decision on adoption of the Strategy and Business Plan of Komercijalna banka a.d. Beograd 2018-2020.

At the General Meeting of Shareholders of the Bank held on 14 March 2018, the following decisions were passed:

1. Decision on release from duty and appointment of the Chairperson of the General Meeting of Shareholders of Komercijalna banka a.d. Beograd.
2. Decision amending the Decision on release from duty and appointment of the Chairperson of the Board of Directors of Komercijalna banka a.d. Beograd.

At the General Meeting of Shareholders of the Bank held on 26 April 2018, the following decisions were passed:

1. Decision on adoption of the Annual Report of Komercijalna banka a.d. Beograd and regular financial statements with the external auditor's opinion for 2017
2. Decision on adoption of the Annual Report and consolidated financial statements of Komercijalna banka a.d. Beograd Group with the external auditor's opinion for 2017
3. Decision on distribution of profit from 2017 and retained earnings from previous years.
4. Decision – Information in connection with Article 77 of the Law on Banks.
5. Decision - Report in accordance with Article 78 of the Law on Banks.
6. Decision on compulsory purchase of 6 shares in SWIFT.
7. Decision determining the amount of remuneration for the Chairperson of the General Meeting of Shareholders of the Bank.

At the General Meeting of Shareholders of the Bank held on 30 May 2018, the following decision was passed:

1. Decision on release from duty and appointment of a member of the Board of Directors of Komercijalna banka a.d. Beograd.

At the General Meeting of Shareholders of the Bank held on 31 July 2018, the following decision was passed:

1. Decision on appointment of the external auditor of the Bank for 2018.

At the General Meeting of Shareholders of the Bank held on 24 September 2018, the following decision was passed:

1. Decision on release from duty of members of the Board of Directors of Komercijalna banka a.d. Beograd.

A description of events which took place after the balance sheet date is provided in the section of the same name in the Notes to the Financial Statements for Q3 2018.

11. KEY INFORMATION ON EXECUTION OF THE 2018 BUSINESS PLAN

Execution of the Bank's Strategy and Business Plan in the first nine months of 2018 took place in the following macroeconomic conditions:

- GDP growth of 4.8% in Q2 2018 relative to the same period last year (SORS[12]); the plan for the whole of 2018 is GDP growth of 3.5%[13],
- Stable movement of the dinar exchange rate at around 118 dinars for one euro (planned dinar/euro exchange rate at the end of the current year: EUR 1 = RSD 122.00 (KB); the actual exchange rate as at 30 September 2018 was EUR 1 =RSD 118.42),
- Inflation rate (y-o-y, September 2018/September 2017) of 2.1%, with a downward tendency; it is currently within the limits of the target rate for 2018 (3.0%±1.5 p.p.).

According to the SORS figures, y-o-y economic growth in Q2 2018 was 4.8%[14]. All manufacturing sectors gave a positive contribution to economic growth. The main drivers of economic growth in Q2 were the services sector, the construction sector and industrial manufacturing. On the spending side, household spending and investments were the main drivers[15].

Total foreign trade between January and August 2018 was worth 24.9 billion euros[16] (exported goods were worth 10.7 billion euros, while imported goods were worth 14.2 billion euros) – a year-on-year increase of 11.0%.
The total value of exports by the 15 largest exporters between January and September 2018 was 3.3 billion euros[17]. EU Member States still account for two thirds of Serbia's foreign trade.
Foreign exchange reserves of the NBS in September 2018 amounted to 11.2[18] billion euros and were 153 million euros lower than at the end of August of the current year.
Between January and August 2018, general government generated a fiscal surplus of 41.1 billion dinars[19]. Public debt at the end of August 2018 was 24.0 billion euros[20], which was lower than in the previous reporting period.
In the first eight months of 2018, net inflow of foreign direct investment (FDI) increased by 3.1% y-o-y, which translates to approx. 1.7 billion euros[21], while the projection for the whole year is approx. 2.6 billion euros. Once again, this year most of the investment is directed towards export-oriented sectors.
Relaxation of the NBS monetary policy since mid-2013 has resulted in lower interest rates on dinar-denominated corporate and retail loans. Interest rates on newly-approved dinar loans in August 2018 were 4.9% in the corporate segment and 10.3% in the retail segment[22]. In addition, there has been a downward trend in interest rates on existing loans, which resulted in higher disposable income for other spending by retail and corporate customers.
Banks have continued the trend of increased lending throughout 2018. August of the current year saw a 6.0% increase y-o-y, with retail loans increasing by 11.0% y-o-y, while corporate loans increased by 2.3%[23] y-o-y. Lending by banks is expected to increase further by the end of the financial year, given the increase in economic activity, competition among banks, relaxation of monetary policy and low interest rates in the Eurozone.

12 Quarterly Gross Domestic Product in the Republic of Serbia, Q2 2018, Press Release, SORS
13 Fiscal Strategy for 2018 with Projections for 2019 and 2020, p. 17
14 Current Macroeconomic Trends, October 2018, Ministry of Finance of RS
15 Current Macroeconomic Trends, October 2018, Ministry of Finance of RS
16 Current Macroeconomic Trends, October 2018, Ministry of Finance of RS
17 Current Macroeconomic Trends, October 2018, Ministry of Finance of RS
18 Balance of Foreign Exchange Reserves, NBS
19 Press Release, 23 October 2018, Ministry of Finance of RS
20 Public Debt of the Republic of Serbia from 2000 to 31 August 2018, Table 5, Ministry of Finance of RS
21 Macroeconomic Trends in Serbia, October 2018, NBS
22 Macroeconomic Trends in Serbia, October 2018, NBS
23 Macroeconomic Trends in Serbia, October 2018, NBS

11.1. Planned and achieved Balance Sheet figures as at 30 September 2018

Total balance sheet assets of the Bank at the end of Q3 2018 amounted to 389,695.8 million dinars and exceeded the planned figure for year-end by 1,720.4 million dinars or 0.4%.

Investment in securities as at 30 September 2018 exceeded the planned level for the entire 2018 by 19.6%, mainly as a result of lower-than-planned corporate lending.

Loans to customers as at 30 September 2018 amounted to 172,566.8 million dinars. In order to achieve the planned level of lending to customers, the Bank will have to lend 20,758.3 million dinars in the last quarter, i.e. it will have to achieve a 12.0% lending growth.

In the fourth quarter of 2018, the Bank will have to achieve growth in total deposits by 3,014.1 million dinars or by 1.0%. The most significant increase is expected to come from retail deposits, which are expected to grow by 1.2%.

Other liabilities as at 30 September 2018 exceeded the planned figure by 34.4%.

Stabilisation of the exchange rate of the dinar against the euro contributed to a certain extent to the deviation of the achieved figures from the planned ones.

Achieved and planned positions of assets and liabilities on the Balance Sheet as at 30 September 2018 were as follows:

(RSD m)

No.	POSITION	Planned 31 Dec 2018	Achieved 30 Sept 2018	INDEX
1	2	3	4	5=4/3*100
	ASSETS			
1.	Cash and cash equivalents	53,783	52,340	97.3
2.	Securities	110,287	131,899	119.6
3.	**Granted loans**	**193,325**	**172,567**	89.3
4.	Other assets	30,581	32,889	107.6
5.	**TOTAL ASSETS (1.+2.+3.+4.)**	**387,975**	**389,696**	100.4

	LIABILITIES			
1.	**Deposits**	**310,407**	**307,393**	99.0
2.	Other obligations	12,100	16,263	134.4
3.	**Total obligations (1.+2.)**	**322,507**	**323,656**	100.4
4.	**Total capital**	**65,468**	**66,040**	100.9
5.	**TOTAL LIABILITIES (3.+4.)**	**387,975**	**389,696**	100.4

11.2. Planned and achieved Income Statement figures in the period 1 January - 30 September 2018

(RSD m)

No.	POSITION	Planned 1 Jan - 30 Sept 2018	Achieved 1 Jan - 30 Sept 2018	INDEX
1	2	3	4	5=4/3*100
1.1.	Interest income	10,122	10,249	101.3
1.2.	Interest expenses	-818	-681	83.2
1.	**Interest gain (1.1.-1.2.)**	**9,304**	**9,568**	102.8
2.1.	Fee and commission income	5,864	5,288	90.2
2.2.	Fee and commission expenses	-1,261	-1,424	113.0
2.	**Fee and commission gain (2.1. -2.2.)**	**4,604**	**3,864**	83.9
3.	Net exchange gain/loss and change in value (currency clause)	0	-6	-
4.	Net other operating income and expenses	101	699	695.3
5.	Net gain/loss arising from impairment of financial assets not carried at fair value	-927	168	-
6.	Operating expenses	-8,184	-7,781	95.1
7.	**OPERATING PROFIT**	**4,897**	**6,512**	133.0

As regards Income Statement positions, a significant deviation occurred in net expenses arising from impairment of financial assets not carried at fair value (the Bank generated net income of 167.8 million dinars, whereas it had planned a net expense of 927.4 million dinars).
The actual net interest gain exceeded the planned figure by 264.1 million dinars.
The actual net fee and commission gain in the three quarters of 2018 fell short of the plan by 740.1 million dinars.
Operating expenses in the same period were 7,781.0 million dinars and were 403.0 million dinars lower than planned, as a result of rationalisation of operations.

As a result of the generated income from impairment of financial assets not carried at fair value and the lower-than-planned operating expenses in the first three quarters of 2018, the Bank generated profit before tax of 6,511.7 million dinars, exceeding the planned figure by 33.0%.

Signed on behalf of Komercijalna banka a.d. Beograd

Director of the Controlling and Planning Division

Д. Романдић

Dragana Romandić

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

Member of the Executive Board

Miroslav Perić, PhD

СЂЧ

BALANCE SHEET

on 30.09.2018.

(in RSD thousand)

POSITION	ADP code	Amount: Current year ammount	Amount: Previous year ammount
1	2	3	4
ASSETS			
ASSETS Cash and assets held with central bank	0001	52.340.197	49.840.887
Pledged financial assets	0002	-	-
Receivables under derivatives	0003	1.380	-
Securities	0004	131.899.460	117.288.767
Loans and receivables from banks and other financial organisations	0005	22.174.345	29.543.789
Loans and receivables from clients	0006	164.376.387	153.897.367
Change in fair value of hedged items	0007	-	-
Receivables under hedging derivatives	0008	-	-
Investments in associated companies and joint ventures	0009	-	-
Investments into subsidiaries	0010	2.611.859	2.611.859
Intangible investments	0011	397.330	460.263
Property, plant and equipment	0012	5.480.926	5.655.248
Investment property	0013	1.912.870	1.988.608
Current tax assets	0014	-	-
Deferred tax assets	0015	1.403.452	857.096
Non-current assets held for sale and discontinued operations	0016	241.148	241.148
Other assets	0017	6.856.491	6.798.506
TOTAL ASSETS (from 0001 to 0017)	0018	389.695.845	369.183.538
LIABILITIES			
LIABILITIES Liabilities under derivatives	0401	-	7.845
Deposits and other liabilities to banks, other financial organisations and central bank	0402	3.634.651	4.532.505
Deposits and other financial liabilities to clients	0403	307.891.297	292.471.640
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	1.528.908	1.368.051
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	-	-
Deferred tax liabilities	0411	610.675	-
Other liabilities	0412	9.990.330	7.543.442
TOTAL LIABILITIES (from 0401 to 0412)	0413	323.655.861	305.923.483
CAPITAL			
CAPITAL Share capital	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	7.390.704	8.137.249
Loss	0417	-	-
Reserves	0418	18.614.730	15.088.256
Unrealized losses	0419	-	-
Non-controlling participation	0420	-	-
TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0	0421	66.039.984	63.260.055
TOTAL CAPITAL SHORTFALL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0	0422	0	0
TOTAL LIABILITIES (0413 + 0421 - 0422)	0423	389.695.845	369.183.538

INCOME STATEMENT

from 01.01.2018. to 30.09.2018.

(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	3.561.840	10.249.024	3.432.527	10.709.303
Interest expenses	1002	223.614	680.918	379.180	1.267.122
Net interest gains (1001-1002)	1003	3.338.226	9.568.106	3.053.347	9.442.181
Net interest losses (1002-1001)	1004	-	-	-	-
Income from fees and commissions	1005	1.854.404	5.287.750	1.718.064	4.911.470
Expenses on fees and commissions	1006	543.782	1.424.110	424.798	1.155.426
Net gains from fees and commissions (1005 - 1006)	1007	1.310.622	3.863.640	1.293.266	3.756.044
Net losses on fees and commissions (1006 - 1005)	1008	-	-	-	-
Net gains from changes in fair value of financial instruments	1009	34.827	83.578	21.643	45.511
Net losses from changes in fair value of financial instruments	1010	-	-	-	-
Net gains on reclassification of financial instruments	1011	-	-	-	-
Net losses on reclassification of financial instruments	1012	-	-	-	-
Net gains from derecognition of the financial instruments measured at fair value	1013	65.633	159.958	2.668	62.168
Net losses on derecognition of the financial instruments measured at fair value	1014	-	-	-	-
Net gains from hedging	1015	-	-	-	-
Net losses on hedging	1016	-	-	-	-
Net exchange rate gains and gains from agreed currency clause	1017	-	-		-
Net exchange rate losses and losses on agreed currency clause	1018	4.491	5.551	30.202	30.219
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	202.939	167.751	-	-
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	-	-	444.263	216.936
Net gains from derecognition of the financial instruments measured at amortised cost	1021	526.547	526.547	-	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	-	-	-	-
Net gains from derecognition of investments in associated companies and joint ventures	1023	-	-	-	306
Net losses on derecognition of investments in associated companies and joint ventures	1024	-	-	-	-
Other operating income	1025	37.049	114.267	36.511	123.750
TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1026	5.511.352	14.478.296	3.932.970	13.182.805
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1027	-	-	-	-
Salaries, salary compensations and other personal expenses	1028	1.084.528	3.287.044	1.070.072	3.290.095
Depreciation costs	1029	136.753	420.845	137.555	428.792
Other income	1030	15.319	221.434	69.947	692.165
Other expenses	1031	1.414.435	4.480.137	1.517.350	4.457.981
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	2.890.955	6.511.704	1.277.940	5.698.102
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0	1033	-	-	-	-
Profit tax	1034	-	-	-	-
Gains from deferred taxes	1035	-	-	-	1.235.813
Losses on deferred taxes	1036	-	-	-	-
PROFIT AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0	1037	2.890.955	6.511.704	1.277.940	6.933.915
LOSSES AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) < 0	1038	-	-	-	-
Net profit from discontinued operations	1039	-	-	-	-
Net losses on discontinued operations	1040	-	-	-	-
RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1041	2.890.955	6.511.704	1.277.940	6.933.915
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-	-	-
Profit belonging to a parent entity	1043	-	-	-	-
Profit belonging to non-controlling owners	1044	-	-	-	-
Losses belonging to a parent entity	1045	-	-	-	-
Losses belonging to non-controlling owners	1046	-	-	-	-
EARNINGS PER SHARE					
Basic earnings per share (in dinars, without paras)	1047	-	-	-	-
Diluted earnings per share (in dinars, without paras)	1048	-	-	-	-

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

STATEMENT OF OTHER COMPREHENSIVE RESULT

from 01.01.2018. to 30.09.2018.

(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	2.890.955	6.511.704	1.277.940	6.933.915
LOSS FOR THE PERIOD	2002	-	-	-	-
Other comprehensive income for the period **Components of other comprehensive income which cannot be reclassified to profit or loss:** Increase in revaluation reserves based on intangible assets and fixed assets	2003	-	-	-	-
Decrease in revaluation reserves based on intangible assets and fixed assets	2004	-	-	-	-
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	168.024	386.155	72.933	137.282
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	-	-		-
Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009	-	-	-	-
Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010	-	-	-	-
Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011	-	-	-	-
Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014	-	-	-	-
Components of other comprehensive income that may be reclassified to profit or loss: Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	2015	-	-	-	-
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	80.168	169.310	59.575	498.304
Gains from cash flow hedges	2017	-	-	-	-
Losses from cash flow hedges	2018	-	-	-	-
Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019	-	-	-	-
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	-	-	-	-
Unrealised gains from hedge of net investments in foreign operations	2021	-	-	-	-
Unrealised losses from hedge of net investments in foreign operations	2022	-	-	-	-
Unrealised gains from other hedging instruments	2023	-	-	-	-
Unrealised losses from other hedging instruments	2024	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2025	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2026	-	-	-	-
Tax gains relating to other comprehensive income for the period	2027	12.026	25.397	-	-
Tax losses relating to other comprehensive income for the period	2028	25.203	57.923	-	-
Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) ≥ 0	2029	**74.679**	**184.319**	**13.358**	-
Total negative comprehensive income 2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) < 0	2030	-	-	-	**361.022**
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	**2.965.634**	**6.696.023**	**1.291.298**	**6.572.893**
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	-	-	-	-
Total positive comprehensive income for the period attributable to the parent entity	2033	-	-	-	-
Total positive comprehensive income for the period attributable to non-controlling owners	2034	-	-	-	-
Total negative comprehensive income for the period attributable to the parent entity	2035	-	-	-	-
Total negative comprehensive income for the period attributable to non-controlling owners	2036	-	-	-	-

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

CASH FLOW STATEMENT

from 01.01.2018. to 30.09.2018.

(in RSD thousand)

	POSITION	ADP code	Amount 01.01.-30.09.2018.	Amount 01.01-30.09.2017
	1	2	3*	4
A.	CASH FLOWS FROM OPERATING ACTIVITIES			
I.	**Cash inflow from operating activities (from 3002 to 3005)**	3001	17.289.775	18.086.047
1.	Interest	3002	10.948.293	12.305.748
2.	Fees	3003	5.326.771	4.921.329
3.	Other operating income	3004	1.007.544	851.352
4.	Dividends and profit sharing	3005	7.167	7.618
II.	**Cash outflow from operating activities (from 3007 to 3011)**	3006	9.088.171	10.030.094
5.	Interest	3007	621.580	1.254.424
6.	Fees	3008	1.424.720	1.157.426
7.	Gross salaries, salary compensations and other personal expenses	3009	2.917.141	3.168.884
8.	Taxes, contributions and other duties charged to income	3010	607.309	574.953
9.	Other operating expenses	3011	3.517.421	3.874.407
III.	**Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	8.201.604	8.055.953
IV.	**Net cash outflow from operating activities before an increase or decrease in financial assets and financial liabilities (3006 - 3001)**	3013	-	-
V.	**Decrease in financial assets and increase in financial liabilities (from 3015 to 3020)**	3014	18.053.275	17.449.319
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	9.981.934
11.	Decrease in receivables under securities and other financial assets not intended for investment	3016	-	7.467.385
12.	Decrease in receivables under hedging derivatives and change in fair value of hedged items	3017	-	-
13.	Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	3018	18.053.275	-
14.	Increase in other financial liabilities	3019	-	-
15.	Increase in liabilities under hedging derivatives and change in fair value of hedged items	3020	-	-
VI.	**Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)**	3021	7.045.417	17.791.980
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	2.164.034	-
17.	Increase in receivables under securities and other financial assets not intended for investment	3023	4.875.698	-
18.	Increase in receivables under hedging derivatives and change in fair value of hedged items	3024	-	-
19.	Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	3025	-	17.791.980
20.	Decrease in other financial liabilities	3026	5.685	-
21.	Decrease in liabilities under hedging derivatives and change in fair value of hedged items	3027	-	-
VII.	**Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)**	3028	19.209.462	7.713.292
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3029	-	-
22.	Profit tax paid	3030	-	-
23.	Dividends paid	3031	-	-
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	19.209.462	7.713.292
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	-	-
B.	CASH FLOWS FROM INVESTMENT ACTIVITIES			
I.	**Cash inflow from investing activities (from 3035 to 3039)**	3034	36.014.312	45.734.104
1.	Investment in investment securities	3035	36.014.312	45.614.645
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	-	577
4.	Sale of investment property	3038	-	118.882
5.	Other inflow from investing activities	3039	-	-
II.	**Cash outflow from investing activities (from 3041 to 3045)**	3040	45.995.414	44.843.784
6.	Investment into investment securities	3041	45.740.984	44.646.913
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	251.122	196.871
9.	Purchase of investment property	3044	-	-
10.	Other outflow from investing activities	3045	3.308	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	-	890.320
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	9.981.102	-
C.	CASH FLOWS FROM FINANCING ACTIVITIES			
I.	**Cash inflow from financing activities (from 3049 to 3054)**	3048	65.109.174	71.519.852
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	65.109.174	71.519.852
4.	Issuance of securities	3052	-	-
5.	Sale of own shares	3053	-	-
6.	Other inflow from financing activities	3054	-	-
II.	**Cash outflow from financing activities (from 3056 to 3060)**	3055	69.188.672	75.349.474
7.	Purchase of own shares	3056	-	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	69.188.672	75.349.474
10.	Issuance of securities	3059	-	-
11.	Other outflow from financing activities	3060	-	-
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	-	-
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	4.079.498	3.829.622
D.	**TOTAL CASH INFLOWS (3001 + 3014 + 3034 + 3048)**	3063	136.466.536	152.789.322
E.	**TOTAL CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	131.317.674	148.015.332
F.	**NET INCREASE IN CASH (3063 - 3064)**	3065	5.148.862	4.773.990
G.	**NET DECREASE IN CASH (3064 - 3063)**	3066	-	-
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**	3067	26.314.898	34.945.610
I.	**EXCHANGE RATE GAINS**	3068	68.075	-
J.	**EXCHANGE RATE LOSSES**	3069	-	587.749
K.	**CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)**	3070	31.531.835	39.131.851

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

STATEMENT OF CHANGES IN EQUITY

from 01.01.2018. to 30.09.2018.

(in RSD thousand)

ITEM	ADP code	Share capital and other equity (accounts 800, 801,803, 809)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (group of accounts 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Non-controlling participation	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)<0
1		2		3		4		5		6		7		8		9		10		11		12
Opening balance as at 1 January of the previous year	4001	17.191.466	4033		4065	22.843.084	4097	18.791.828	4129	4.316.496	4147	5.087	4165	349.698	4203	8.063.183	4241		4285	55.424.302	4291	
Effects of the first implementation of new IFRS - increase	4002		4034		4066		4098		4130		4148		4166		4204		4242					
Effects of the first implementation of new IFRS – decrease	4003		4035		4067		4099		4131		4149		4167		4205		4243					
Changes in accounting policies and correction of prior period error – increase	4004		4036		4068		4100		4132		4150		4168		4206		4244					
Changes in accounting policies and correction of prior period error – decrease	4005		4037		4069		4101		4133		4151		4169		4207		4245					
The adjusted opening balance as at 1 January of the previous year (No 1+2-3)	4006	17.191.466	4038	0	4070	22.843.084	4102	18.791.828	4134	4.316.496	4152	5.087	4170	349.698	4208	8.063.183	4246		4286	55.424.302		
Total positive other comprehensive income for the period									4135		4153	1.549			x		4247					
Total negative other comprehensive income for the period									4136	286.237	4154				x		4248					
Profit for the current year													4171	8.117.368	x		4249					
Loss for the current year															4209		4250					
Transfer from provisions to retained earnings due to provisions reversal – increase													4172		4210		4251					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4173		4211		4252					
Transactions with owners recognized directly in equity – increase	4007		4039		4071		4103						4174		4212		4253					
Transactions with owners recognized directly in equity – decrease	4008		4040		4072		4104						4175		4213		4254					
Distribution of profit – increase	4009		4041		4073		4105						4176		4214		4255					
Distribution of profit and/or coverage of losses – decrease	4010		4042		4074		4106	7.730.293					4177	332.890	4215	8.063.183	4256					
Dividend payments	4011		4043		4075		4107						4178	16.808	4216		4257					
Other – increase	4012		4044		4076		4108						4179	19.881	4217		4258					
Other – decrease	4013		4045		4077		4109						4180		4218		4259					
Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0	4014	0	4046	0	4078	0	4110	0					4181	0	4219	0	4260					
Total transactions with owners (No 11-12+13-14-15+16-17) < 0	4015	0	4047	0	4079	0	4111	7.730.293					4182	329.817	4220	8.063.183	4261					
Balance as at 30 June of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)	4016	17.191.466	4048	0	4080	22.843.084	4112	11.061.535	4137	4.030.259	4155	3.538	4183	8.137.249	4221	0	4262		4287	63.260.055	4293	
Opening balance as at 1 January of the current year	4017	17.191.466	4049		4081	22.843.084	4113	11.061.535	4138	4.030.259	4156	3.538	4184	8.137.249	4222	0	4263		4288	63.260.055	4294	
Effects of the first implementation of new IFRS - decrease	4018		4050		4082		4114		4139	176.617	4157		4185		4223		4264					
Effects of the first implementation of new IFRS - decrease	4019		4051		4083		4115		4140		4158	3.538	4186	1.161.693	4224		4265					
Changes in accounting policies and correction of prior period error – increase	4020		4052		4084		4116		4141		4159		4187		4225		4266					
Changes in accounting policies and correction of prior period error – decrease	4021		4053		4085		4117		4142		4160		4188		4226		4267					
Adjusted opening balance as at 1 January of the current year (No 21+22-23)	4022	17.191.466	4054	0	4086	22.843.084	4118	11.061.535	4143	4.206.876	4161	0	4189	6.975.556	4227	0	4268		4289	62.278.517	4295	
Total positive other comprehensive income for the period									4144	184.319	4162				x		4269					
Total negative other comprehensive income for the period									4145		4163				x		4270					
Profit for the current year													4190	6.511.704	x		4271					
Loss for the current year															4228		4272					
Transfer from provisions to retained earnings due to provisions reversal – increase													4191		4229		4273					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4192		4230		4274					
Transactions with owners recognized directly in equity – increase	4023		4055		4087		4119						4193		4231		4275					
Transactions with owners recognized directly in equity – decrease	4024		4056		4088		4120						4194		4232		4276					
Distribution of profit – increase	4025		4057		4089		4121	3.162.000					4195		4233		4277					
Distribution of profit and/or coverage of losses – decrease	4026		4058		4090		4122						4196	3.162.000	4234		4278					
Dividend payments	4027		4059		4091		4123						4197	2.535.916	4235		4279					
Other – increase	4028		4060		4092		4124						4198		4236		4280					
Other – decrease	4029		4061		4093		4125						4199	398.640	4237		4281					
Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0	4030	0	4062	0	4094	0	4126	3.162.000					4200	0	4238	0	4282					
Total transactions with owners (No 31-32+33-34-35+36- 37) < 0	4031	0	4063	0	4095	0	4127	0					4201	6.096.556	4239	0	4283					
Balance as at 30 September of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)	4032	17.191.466	4064	0	4096	22.843.084	4128	14.223.535	4146	4.391.195	4164	0	4202	7.390.704	4240	0	4284		4290	66.039.984	4296	

NOTES

TO FINANCIAL STATEMENTS FOR THE THIRD QUARTER 2018

Belgrade, November 2018

1. INCORPORATION AND OPERATION OF THE BANK

Komercijalna Banka AD Beograd (hereinafter referred to as "Bank") was incorporated on 1st December 1970, and transformed into a joint-stock company on 6th May 1992.

As of 30th September 2018, 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 Podgorica, Montenegro
- 100% - KomBank INVEST AD, Serbia
- 99.99 % - Komercijalna Banka AD Banja Luka, Bosnia and Herzegovina.

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

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

As of 30th September 2018, the Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 6 business centres, three sectors for work with small and medium-sized enterprises, 1 branch and 201 sub-branches.

As of 30th September 2018 the Bank has 2,792 employees, and on 31st December 2017, the number of employees was 2,806. Tax ID number of the Bank is 100001931.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Statement of Compliance

The Bank keeps books of accounts and prepares the financial statements in accordance with the applicable Law on Accounting of the Republic of Serbia (RS Official Gazette, 62/2013 and 30/2018), the Law on Banks (RS Official Gazette, numbers 107/2005, 91/2010 and 14/2015) and other relevant by-laws of the National Bank of Serbia, as well as other applicable legal regulations in the Republic of Serbia.

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

When preparing and presenting periodic financial statements for the period January – September 2018, the implementation of the IFRS 9 standard resulted in amendments to the NBS legislation that obliged banks to apply new forms of financial statements with the starting date of 1st January 2018.

Banks were obliged to adjust data from the preceding column of the year to the new structure, without making changes to the financial data.

When creating quarterly financial statements for 2018, the Bank applied new Accounting policies to the part referring to financial instruments and possibility of allocation of credit losses for all accounting periods which record benefits from assets, which is a prerequisite for determining an accurate result.

The Bank prepares and presents regular financial statements for the current business year ending on 31st December of the current year as well as reports in a shorter period for its needs, at the request of the Bank's competent body or competent state authorities.

The enclosed financial statements are prepared in the format prescribed by the Rulebook on the content, form and manner of publishing annual, semi-annual and the quarterly financial statements of the public companies (RS Official Gazette no. 12/2015, 5/2015 and 24/2017) on the basis of which public companies and certain companies related with them present information to the Securities Commission in conformity with the Law on Capital Market (RS Official Gazette, number 31/2011, 112/2015 and 108/2016). The prescribed set of quarterly financial statements includes: Balance Sheet, Income Statement, Statement of Other Comprehensive Income, Cash Flow Statement, Statement of Changes in Equity, and Notes to Quarterly Financial Statements.

2.2. Rules of assessment of financial instruments

In terms of classification and measurement, IFRS 9 introduces new criteria for the classification of financial assets, except for equity instruments and derivatives, which are based on the assessment of the business model for managing specific financial assets and agreed characteristics of cash flows of financial instruments.

2.2.1. Financial assets

The Bank is making an assessment of the objectives of business models for managing financial assets at the portfolio level, since such an assessment best presents the manner of managing business activities and the manner of reporting to the management.

The classification of financial assets is based on the application of an appropriate business model for managing financial assets and fulfilment of the test of characteristics of agreed cash flows.

The business model determines whether cash flows result from the collection of agreed cash flows, sale of financial assets, or both. The business model for the classification of financial assets is determined at an appropriate level of aggregation.

The fulfilment of the test of characteristics of agreed cash flows implies that cash flows consist exclusively of the payment of the principal and the interest rate on the remaining principal (SPPI criterion).

Financial assets may be classified into the following categories:

a) Financial assets valued at amortised costs (AC)

b) Financial assets valued at fair value through profit and loss (FVTPL)
c) Financial assets valued at fair value through other comprehensive income, with recognition through the income statement – “recycling“(FVOCI)
d) Financial assets valued at fair value through other comprehensive income, without recognition through the income statement (FVOCI)

In accordance with the classification of the assets referred to in the previous paragraph, the Bank categorises all placements from its portfolio that refer to:

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market, and which the Bank does not intend to sell in a short period of time,
- Securities that are valued at fair value through profit and loss, which represent instruments obtained for the purpose of generating profit from the fluctuation of prices and margin,
- Securities which include debt securities and proprietary securities (equity instruments), and
- Financial derivatives that include forward and swap transactions.

2.2.2. Financial liabilities

Financial liabilities are any contracted liability of the Bank:

- To deliver cash or another financial asset to another legal entity,
- To exchange financial instruments with another legal entity under conditions which are potentially unfavourable.

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 30th September 2018, with comparative data for 2017, 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 101/2017 and 38/2018), applied from 1st January 2018 and can be seen in more detail from the following overview:

In thousand RSD

	30.09.2018.		31.12.2017.	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	52,340,197	13.43	49,840,887	13.50
Receivables under derivatives	1,380	0.00	-	-
Securities	131,899,460	33.85	117,288,767	31.77
Loans and receivables from banks and other financial organizations	22,174,345	5.69	- 29,543,789	- 8.00
Loans and receivables from clients	164,376,387	42.18	153,897,367	41.69
Investments into subsidiaries	2,611,859	0.67	2,611,859	0.71
Intangible investments	397,330	0.10	460,263	0.12
Property, plant and equipment	5,480,926	1.41	5,655,248	1.53
Investment property	1,912,870	0.49	1,988,608	0.54
Deferred tax assets	1,403,452	0.36	857,096	0.23
Non-current assets held for sale and assets from discontinued operations	241,148	0.06	241,148	0.07
Other assets	6,856,491	1.76	6,798,506	1.84
TOTAL ASSETS	**389,695,845**	**100.00**	**369,183,538**	**100.00**

In thousand RSD

	30.09.2018.		31.12.2017.	
LIABILITIES	Amount	%	Amount	%
Liabilities under derivatives	-	-	7,845	-
Deposits and other liabilities due to banks, other financial organizations and central bank	3,634,651	0.93	4,532,505	1.23
Deposits and other financial liabilities due to clients	307,891,297	79.01	292,471,640	79.22
Provisions	1,528,908	0.39	1,368,051	0.37
Deferred tax liabilities	610,675	0.16	-	-
Other liabilities	9,990,330	2.56	7,543,442	2.04
Total capital	66,039,984	16.95	63,260,055	17.14
TOTAL LIABILITIES	**389,695,845**	**100.00**	**369,183,538**	**100.00**

INCOME STATEMENT

Profit and loss structure for 2018 is as follows:

In thousand RSD

	30.09.2018.	30.09.2017.
INCOME	Total	Total
Interest income	10,249,024	10,709,303
Income from fees and commisions	5,287,750	4,911,470
Net gains from changes in fair value of financial instruments	83,578	45,511
Net gains from derecognition of the financial instruments measured at fair value	159,958	62,168
Net income from reduction in impairment assets not measured at fair value through income statement	167,751	-
Net gains from derecognition of the financial instruments measured at amortised cost	526,547	-
Net gains from derecognition of investments in associated companies and joint ventures	-	306
Other operating income	114,267	123,750
Other income	221,434	692,165

EXPENSES	Total	Total
Interest expenses	680,918	1,267,122
Expenses on fees and commissions	1,424,110	1,155,426
Net exchange rate losses and losses on agreed currency clause	5,551	30,219
Net expenses on impairment of financial assets not measured at fair value through income statement	-	216,936
Salaries, salary compensations and other personal expenses	3,287,044	3,290,095
Depreciation cost	420,845	428,792
Other expenses	4,480,137	4,457,981
Profit/loss before tax	**6,511,704**	**5,698,102**
Profit from deferred tax	**-**	1,235,813
Result for the period (profit/loss)	**6,511,704**	**6,933,915**

CASH FLOW STATEMENT

Cash flows achieved in 2018 are shown in the table below:

In thousand RSD

	30.09.2018.	30.09.2017.
Item	Total	Total
Cash inflows from operating activities	**17,289,775**	**18,086,047**
Interest	10,948,293	12,305,748
Fees	5,326,771	4,921,329
Other operating income	1,007,544	851,352
Dividends and profit sharing	7,167	7,618
Cash outflows from operating activities	**9,088,171**	**10,030,094**
Interest	621,580	1,254,424
Fees	1,424,720	1,157,426
Gross salaries, salary compensations and other personal expenses	2,917,141	3,168,884
Taxes, contributions and other duties charged to income	607,309	574,953
Other operating expenses	3,517,421	3,874,407
Net cash inflow from operating activities before increase or decrease in financial assets and financial liabilities	**8,201,604**	**8,055,953**
Decrease in financial assets and increase in financial liabilities	**18,053,275**	**17,449,319**
Decrease in loans and receivables from banks, other financial organizations, central bank and clients	-	9,981,934
Decrease in receivables under securities and other financial assets not intended for investment	-	7,467,385
Increase in deposits and other financial liabilities to banks and other financial organizations, central bank and clients	18,053,275	-
Increase in financial assets and decrease in financial assets	**7,045,417**	**17,791,980**
Increase in loans and receivables from banks and other financial organizations, the central bank and clients	2,164,034	-
Increase in receivables under securities and other financial assets not intended for investments	4,875,698	-
Decrease in deposits and other financial liabilities to banks, other financial organizations, central banks and clients	-	17,791,980
Decrease in other financial liabilities	5,685	-

Item	30.09.2018. Total	30.09.2017. Total
Net inflow of cash from operating activities before profit tax	**19,209,462**	**7,713,292**
Net outflow of cash from operating activities before profit tax	**-**	**-**
Net inflow of cash from operating activities	**19,209,462**	**7,713,292**
Net outflow of cash from operating activities	**-**	**-**
Cash inflow from investment activities	**36,014,312**	**45,734,104**
Investment in investment securities	36,014,312	45,614,645
Sale of intangible investments, property, plant and equipment	-	577
Sale of investment property	-	118,882
Cash outflow from investment activities	**45,995,414**	**44,843,784**
Investment into investment securities	45,740,984	44,646,913
Purchase of intangible investments, property, plants and equipment	251,122	196,871
Purchase of investment property	-	-
Other outflow from investing activities	3,308	-
Net inflow of cash from investment activities	**-**	**890,320**
Net outflow of cash from investment activities	**9,981,102**	**-**
Cash inflow from financing activities	**65,109,174**	**71,519,852**
Loans taken	65,109,174	71,519,852
Cash outflow from financing activities	**69,188,672**	**75,349,474**
Loans taken	69,188,672	75,349,474
Net cash outflow from financing activities	**4,079,498**	**3,829,622**
Total cash inflows	**136,466,536**	**152,789,322**
Total cash outflows	**131,317,674**	**148,015,332**
Net increase in cash	**5,148,862**	**4,773,990**
Net decrease in cash	**-**	**-**
Cash and cash equivalents at the beginning of the year	**26,314,898**	**34,945,610**
Exchange rate gains	68,075	-
Exchange rate losses	-	587,749
Cash and cash equivalents, at the end of the period	**31,531,835**	**39,131,851**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

Fees for loan approval are deferred according to period of duration and are recognized in profit and loss account in proportion to duration, within the interest income position.

Net interest income in the period January – September 2018 amounted to RSD 10,249,024 thousand and is lower by RSD 460,279 thousand or by 4.30% compared to the same period last year, influenced by drop in interest rates. The realised net interest income is higher than the value defined in the Business Plan for the first nine months of 2018, by RSD 264,132 thousand.

3.2. Fee and Commission Income and Expenses

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

Income from fees for banking services and expenses based on fees and commissions are established at the time when they are due for collection or when paid. They are recognized in the Income Statement at the time when they are incurred and/or when due for collection. Income based on fee for guarantees and other contingent liabilities are accrued according to the period of duration and are recognized in the profit and loss account in proportion to the duration period.

Net fee and commission income in the period January – September 2018 amount to RSD 3,863,640 thousand and are higher compared to the same period of 2017 by 2.86% or RSD 107,596 thousand.

3.3. Net income from the change in fair value of financial instruments and net income from derecognition of financial instruments measured at fair value

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

In the observed period in 2018, the Bank reported net gain on the basis of the change in the fair value of financial instruments held for trading in the amount of RSD 83,578 thousand (bonds of the Republic of Serbia and investment units of the Kombank Investment Fund).

Unrealized gains and losses based on the change of value of debt and equity securities valued at fair value through other comprehensive income are recognized within the revaluation reserves included in the Bank's capital. At the time of derecognition of debt securities (sale or permanent decrease in the value), corresponding amounts of the previously formed revaluation reserves are shown in the Income Statement as gains or losses based on the derecognition, whereas in case of derecognition of equity securities, relevant amounts of previously formed revaluation reserves permanently remain within the capital.

On the basis of derecognition of financial instruments that are measured at fair value the net income from sale in the amount of RSD 159,958 thousand has been recorded (RS bonds and foreign entities' bonds – foreign banks').

Gains/losses based on the agreed currency clause and changes in the exchange rate of securities, and interest income from securities, except for securities at fair value through the Income Statement, are presented in the Income Statement.

3.4. Conversion 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 converted 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 converted 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 in the conversion of balance sheet items denominated 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 re-valued in accordance with each specific loan contract. The difference between the nominal value of unpaid principal for loans or unpaid deposits and re-valued amount is shown within receivables from loans or liabilities from deposits. Effects of this revaluation are recorded as income and expenses from FX differences arising from the agreed currency clause.

Net expenses from exchange rate differentials in the reporting period January – September 2018 amount to RSD 5,551 thousand. The stated net expense is mainly under direct impact of movement of RSD exchange rate against currency basket (currencies EUR, USD and CHF) between the two observed reporting periods as a form of protection against risk and management of the Bank's FX position – balanced FX position.

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

3.5. Net income/expenses from impairment of financial assets not measured at fair value through profit and loss account

Net income/expenses from impairment refer to the financial assets classified by the Bank into the following categories: loans and receivables measured at amortised cost, and securities measured at fair value through other comprehensive income.

Amortised value of a financial asset or liability is the amount according to which assets or liabilities are initially valued, deduced by the payment of the principal, and increased or deduced by accumulated depreciation using the method of effective interest rate for the spread between the initial value and nominal value on the date of maturity of the instrument, deduced by impairment.

For impairment identification and valuation, the Bank applies the concept of expected credit loss. The Bank calculates and recognises the impairment provision for all financial instruments measured at the amortised cost, as well as for financial assets measured at fair value through other comprehensive income.

The method of identification, calculation and recognition of impairment provision is defined by the Methodology for the calculation of impairment provision in accordance with IFRS 9.

Loans and other receivables are presented in the amount reduced by the group or individual impairment. Individual and group impairment are deduced from the book value of loans identified as impaired in order to deduce their value to their reimbursable value.

If impairment is reduced in the following period, and reduction may be objectively ascribed to the event that occurred after the recognition of loss due to impairment (such as improvement of the debtor's credit rating), then impairment provision is terminated for the previously recognised loss due to impairment.

In the period January – September 2018 net income was recorded based on reduced impairment of financial assets and credit-risk bearing off-balance sheet items not measured at fair value through profit and loss account in the amount of RSD 167,751 thousand, while in the same period of 2017 the net expenses were recorded on this basis amounting to RSD 216,936 thousand.

3.6. Net gain/loss from derecognition of financial instruments measured at amortised cost

Net gain/loss from derecognition of financial instruments relate to gains / losses from sale of loans and receivables measured at amortised cost.

In period January– September 2018 the Bank recorded the net gain from derecognition of financial instruments measured at amortised cost in the amount of RSD 526,547 thousand on the basis of the sale of loans of multiple clients, whereas in the same period of 2017 net income on this basis was not recorded.

3.7. Other Operating Income

In the overall other operating income amounting to RSD 114,267 thousand income from business operations account for the most important share of 92.30% (the same period last year 93.84 %), which mainly refer to the income from the lease of real estate in the amount of RSD 53,589 thousand. Other operating income is generated from the reimbursement of costs based on: court and utility costs, income from the use of business vehicles for private purposes, and income from long-term insurance and also the income from collected costs of the business mobile phones as per authorisation of the employees.

Income from dividends is part of the item: Other Operating Income. Dividends received from investment in shares of other legal entities in the amount of RSD 8,796 thousand are shown as income from dividends at the moment of their collection. Out of total amount of collected dividends, RSD 4,530 thousand relate to a dividend received from VISA Inc. USA, while RSD 3,363 thousand relate to dividend received from Dunav osiguranje ado Beograd, and RSD 903 thousand relate to dividend received from MasterCard USA.

3.8. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 3,287,044 thousand are lower by RSD 3,051 thousand or 0.09% compared to the same period last year.

3.9. Depreciation Costs

Depreciation costs amounting to RSD 420,845 thousand are lower than in the period January – September 2017 by RSD 7,947 thousand, or 1.85%.

3.10. Other Income

Out of the total other income in the amount of RSD 221,434 thousand the most significant share of 58.79% have the income from the release of unused provisions for court disputes in the amount of RSD 130,187 thousand (reference note 3.18.), as well as other income with the share of 40.87%, and/or RSD 90,498 thousand. The most prominent position of other income refers to the income from court dispute ruled in favour of Bank as per final judgement, for the penalty interest and court expenses on the base amount from the claim amounting to RSD 63,405 thousand.

If we exclude the effect of won court dispute, the percentages of share of other income in total other income amounts to 12.24%. Also, as part of the other income, equally important items refer to income from collected interest from earlier years – corporate sector, entrepreneurs and retail customers in the total amount of RSD 20,075 thousand, which accounts for 9.07% of total other income.

3.11. Other Expenses

Other expenses are stated in the amount of RSD 4,480,137 thousand and are higher compared to the same period last year by RSD 22,156 thousand, or 0.50%. Other expenses consist of:

a) Operating expenses amounting to RSD 4,073,102 thousand,
b) Cost of provisions for court disputes amounting to RSD 202,134 thousand,
c) Other expenses amounting to RSD 194,861 thousand and
d) Losses from disposal and write-off of fixed assets and intangible assets in the amount of RSD 10,040 thousand.

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

a) Operating expenses in the total amount of RSD 4,073,102 thousand, as follows:

- immaterial costs totalling RSD 1,772,307 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 1,210,364 thousand, property insurance expenses in the amount of RSD 177,798 thousand, costs of transportation to and from work RSD 68,064 thousand, costs of money transport in the amount of RSD 64,236 thousand and

- Cost of production services amounting to RSD 1,380,309 thousand;

Operating expenses of the current period are lower compared to the same period last year by RSD 154,065 thousand.

b) Costs of provisions for court disputes in the amount of RSD 202,134 thousand refer to increased provisions for court disputes of the Bank in 2018 (reference note 3.18.) and *c) Other expenses in the amount of RSD 194,861 thousand.*

Out of total amount of other expenses for the period January – September 2018 in the amount *of RSD 194,861 thousand* the largest part relates to the costs of insurance policy of borrowers' receivables in the amount of RSD 126,177 thousand. Other expenses on such basis in the same period of 2017 amounted to RSD 76,395 thousand.

Compared to the same period 2017, other expenses are higher by RSD 24,136 thousand, primarily as a result of the increase in insurance costs of borrowers' receivables (increase in RSD 49,782 thousand) on one hand and reduction of expenses from lost court proceedings by RSD 34,019 thousand, on the other hand.

BALANCE SHEET

Total balance sheet amount as of 30.09.2018 RSD 389,695,845 thousand, which in relation to 31 December 2017 makes for an increase by RSD 20,512,307 thousand, or 5.56%.

ASSETS

The dominant share in the total assets of the Bank is that of the loans and deposits to customers and banks of 47.87% (2017: 49.69%), securities with share of 33.85% (2017: 31.77%), cash and funds with central bank with share of 13.43% (2017: 13.50%), other assets with a share of 1.76% (2017: 1.84%), property, plant and equipment with a share of 1.41% (2017: 1.53%) and investments in subsidiaries 0.67% (2017: 0.71%).

3.12. Cash and Funds with the Central Bank

Cash and balances with the central bank as at 30.09.2018 amount to RSD 52,340,197 thousand, representing 13.43% of Bank's total assets (13.50% as of 31.12.2017). Compared to 31.12.2017 the position is higher by RSD 2,499,310 thousand.

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

3.13. Securities

Investments in securities in the amount of RSD 131,899,460 thousand represent a percentage of share of 33.85% in relation to total assets (2017: 31.77%) and comprise of securities that are measured at fair value through profit and loss in the amount of RSD 10,369,334 thousand and securities measured at fair value through other comprehensive income in the amount of RSD 121,530,126 thousand.
The increase of investing in securities in relation to 2017 was realised by RSD 14,610,693 thousand, and/or 12.46%. Of total realised growth of RSD 14,610,693 thousand the securities measured at fair value through profit and loss account for RSD 5,099,625 thousand, while increase in securities measured at fair value through other comprehensive income amount to RSD 9,511,068 thousand.
The largest share in the securities structure in RSD is that of the RS bonds (99.20%), followed by investment units of KomBank Cash Fund, Beograd (0.80%). Regarding securities in foreign currency, these are made up of RS bonds (97.02%) and bonds of foreign banks and countries totalling (2.98%).

3.14. 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 and advances, less repaid principal and less the impairment provision 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 IFRS 9.

Loans in Dinars, for which the protection against risk has been contracted by pegging the exchange rate of the Dinar against the EUR, another foreign currency or the retail price index growth rate, were re-valued in accordance with the specific agreement for each loan. The difference between the nominal value of outstanding principal and the re-valued 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 credited or debited, and/or charged to profit and loss account as exchange rate gains or losses.

As at 30.09.2018 the loans and receivables from banks and other financial organisations amount to RSD 22,174,345 thousand with percentage of share of 5.69% of total assets (2017: RSD 29,543,789 thousand) and are lower by RSD 7,369,444 thousand. Reduction compared to 31.12.2017 is largely a result of decrease of REPO transactions by RSD 11,500,000 thousand on one hand, and an increase of balance on the regular foreign currency current accounts abroad by RSD 4,001,636 thousand, on the other.

Loans and receivables from customers as at 30.09.2018 amount to RSD 164,376,387 thousand and with a share of 42.18% of total assets (2017: RSD 153,897,367 thousand) have a dominant share in the structure of assets. Total loans to customers increased by 6.81% compared to 2017, or by RSD 10,479,020 thousand, of which RSD 8,526,665 thousand relate to three new loans.

In period January – September 2018 in accordance with the NBS Decision on accounting write-off of balance-sheet assets of banks, the Bank performed a permanent write-off by transferring balance-sheet assets to the off-balance-sheet records in the amount of RSD 1,740,060 thousand. The permanent write-off did not result in a decrease in balance-sheet assets, given that the write-off was done for the receivables that had been 100% impaired i.e. in full gross amount of carrying value. According to the NBS decision, balance-sheet assets include NPLs that fit the description in the Decision on the classification of balance-sheet assets and off-balance-sheet items.

3.15. Investment in Subsidiaries

Investments in subsidiaries are RSD 2,611,859 thousand and account for 0.67% of total assets.
The ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with subsidiaries, as a part of regular operations. These include primarily loans and deposits.

Investments in subsidiaries as of 30.09.2018 amount to **RSD 5.480.888 (**gross amount excluding impairment provision) individually per members:

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

Decrease of the value of investment in subsidiaries was carried out based on the assessment of fair value by the independent appraiser, and the effects recognized in the profit & loss as of 31.12.2016., without changes in the balance sheet and income statement in 2017 and 2018.

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

All the above items account for 4.18% of total assets, of which the highest percentage relates to other assets in the amount of 1.76%, property, property and equipment in the amount of 1.41% and investment property in the amount of 0.49%.

Equity investments in banks, foreign and local legal entities as of 30.09.2018 amount to RSD 1,456,518 thousand measured at fair value through other comprehensive income. The largest amount refers to the share in the equity of foreign entities of RSD 1,415,138 thousand and these are shares in the companies MASTER Card International and VISA INC.

Deferred tax assets in the amount of RSD 1,403,452 thousand mostly relate to the formed deferred tax assets from realised tax losses in the previous years.

Compared to 31 December 2017 when deferred tax assets are netted (net amount 857,096) with deferred tax liabilities during the business year, deferred tax assets and deferred tax liabilities are presented in separate balance sheet positions, i.e. are stated by gross principle in the current fiscal year. As of 30.09.2018 deferred tax assets amount to RSD 1,403,452 thousand, and deferred tax liabilities RSD 610,675 thousand and are stated as liabilities in the balance sheet.

Deferred tax assets as of 30.09.2018 largely comprise deferred tax assets based on transferred tax losses in the amount of RSD 867,146 thousand. These deferred tax assets were booked in 2017 in the amount of RSD 1,235,813 thousand, based on the calculation of planned profit from the business plan for the period 2017 - 2019, and partly (in the amount of RSD 368,667 thousand) they are used for covering corporate income tax for 2017. The prescribed deadline for the use of transferred tax losses is 5 years. An important item in deferred tax assets in the amount of RSD 265,532 thousand are tax assets for temporary non-recognised expenses from property impairment.

In 2018 there was an increase in deferred taxes on the basis of a change in the value of securities, which was recorded in the increase of the position of tax assets by RSD 2,562 thousand and in the position of tax liabilities amounting to RSD 66,881 thousand.

LIABILITIES

In the period January – September 2018 in the structure of liabilities deposits and other financial liabilities to banks and customers still have a dominant share, with a total percentage of 79.94% (2017: 80.45%) of the total liabilities. The share of capital in total liabilities stands at 16.95% (2017: 17.14%).

Other positions make for 3.11% of total liabilities which mainly refers to the other liabilities with the percentage of 2.56%.

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

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

The most important share in the structure of liabilities is that of the deposits and other financial liabilities to customers in the amount of RSD 307,891,297 thousand representing 79.01% of total liabilities (2017: 79.22%) and deposits and other financial liabilities towards banks, other financial organizations and the central bank in the amount of RSD 3,634,651 thousand with share of 0.93% (2017: 1.23%).

Total deposits to customers, banks, other financial organizations and central bank amounted to RSD 311,525,948 thousand and compared to 2017 they are higher by RSD 14,521,803 thousand: transaction deposits are higher by RSD 5,724,734 thousand, while other deposits recorded an increase of RSD 8,797,069 thousand. The most significant individual growth in the position of other deposits relates to savings deposits in foreign currency – EUR.

The increase in transaction deposits was the result of an increase in RSD transaction deposits in the amount of RSD 4,776,133 thousand, while transaction deposits in foreign currency increased by RSD 948,601 thousand in comparison to 31.12.2017. In the structure of transaction deposits, the deposits in domestic currency are still dominant with a share of 62.15%, while the remaining 37.85% relate to deposits in foreign currency.

In case of other deposits, deposits in foreign currency with a share of 93.77% are dominant, while dinar deposits have a share of 6.23%. Foreign currency savings increased by approximately EUR 50,51 million.

Borrowings

Borrowings, as part of the deposit and other liabilities towards banks and other customers position, amounted to RSD 3,163,617 thousand with a percentage of share in the total liabilities of 0.81% and they refer to received credit lines in foreign currency and in dinars. The total position is lower in relation to 2017 by RSD 4,248,369 thousand mostly as a result of regular and early repayments of foreign credit lines in foreign currency, as follows:

- Early repayment of the EIB credit line in the amount of EUR 6,939 thousand and regular repayment in the amount of EUR 4,451 thousand
- Early repayment of KfW credit line in the amount of EUR 8,182 thousand and regular repayment in the amount of EUR 2,727 thousand, by which the financial liability under this credit line has been fully repaid.
- Early repayments of the credit line of the Government of the Republic of Italy in the amount of EUR 333 thousand and regular repayments amounting to EUR 898 thousand

i.e. regular repayment of credit lines:

- EAR Fund revolving loan in the amount of EUR 305 thousand and
- EBRD in the amount of EUR 12,000 thousand

As at 30.09.2018 the most significant share in the structure of borrowings relates to the obligation to:

- European Investment Bank (EIB) with a percentage of share of 72.22%
- EBRD with a share percentage of 22.46%.

Other credit lines have a share of 5.32% and they are composed of:

- LEDIB 1 and 2 (Danish Kingdom Credit)
- Government of the Republic of Italy
- European Agency for Reconstruction and Development (EAR)

3.18. Provisions

Provisions in the amount of RSD 1,528,908 thousand consist of provisions for:

- Covering of potential liabilities (litigations) in the amount of RSD 838,317 thousand,
- Long-term employee earnings in the amount of RSD 451,677 thousand and
- Provisions for losses on off-balance sheet assets in the amount of RSD 238,914 thousand.

In the observed period, compared to 2017, there was an increase in provisions in the amount of RSD 160,856 thousand, as a result of the net increase in provisions for losses on off-balance sheet assets amounting to RSD 114,521 thousand and increase in provisions for litigations by RSD 46,335 thousand.

Provisions for court disputes

Recognition of the provisions was made on the basis of estimation of future outflows in the amount of claims, including interest and expenses.

For a thousand three hundred and fifty four cases as at 30.09.2018 the total provisions amount to RSD 838,317 thousand.
Compared to 31.12.2017 there was a change in the total level of provisions in the net amount of RSD 46,335 thousand. Out of this amount, the change relating to the net costs of provisioning arising from court obligations

amounts to RSD 71,947 thousand recognised within the positions of the profit and loss account (reference notes 3.10 and 3.11) while the decrease in the provisions in the amount of RSD 25,612 thousand refers to the use of the provisions for making payments and release of provisions as per final judgements. The increase in the provisions is the result of an additional calculation of interest and exchange rate differences for existing court disputes and the formation of new provisions for 1,326 of new cases.

3.19. Other liabilities

Other liabilities amount to RSD 9,990,330 thousand and compared to 2017 they are higher by RSD 2,446,888 thousand.

The percentage of share of other liabilities in total liabilities is 2.56% (2017: 2.04%). The most important positions of other liabilities are: liabilities from the profit in the amount of RSD 5,442,133 thousand, liabilities in the calculation based on the purchase and sale of foreign currency from banks in foreign currency in the amount of RSD 1,184,179 thousand, other liabilities in the settlement of SPOT transactions in the amount of RSD 869,462 thousand, liabilities in the calculation based on purchase and sale of foreign currency transactions of RSD 355,180 thousand, liabilities for payments by payment cards abroad (VISA inc USA, MasterCard USA) in the amount of RSD 344,117 thousand, liabilities for net salaries charged to expenses in the amount of RSD 257,988 thousand, liabilities for early payments made in relation to retail loans in the amount of RSD 208,905 thousand and accrued liabilities to suppliers amounting to RSD 119,050 thousand.

Increase in other liabilities when compared to 2017 in the amount of RSD 2,446,888 thousand mostly relates to increase in liabilities from the profit in the amount of RSD 2,934,556 thousand, increase in liabilities for net salaries charged to expenses in the amount of RSD 224,056 thousand, increase in accrued liabilities to suppliers amounting to RSD 102,553 thousand, and on the other hand the reduction of liabilities on the basis of other liabilities in the settlement of SPOT transactions in the amount of RSD 382,490 thousand, decrease in liabilities for payments by payment cards abroad (VISA inc USA, MasterCard USA) in the amount of RSD 187,133 thousand and decrease in other liabilities in the calculation – complaints relating to payment cards in the amount of RSD 185,226 thousand.

Liabilities from the profit are formed in the previous quarter of 2018 on the basis of the decision of the Bank's GMS 6380/3 dated 26.04.2018 on distribution of profit from 2017 and undistributed profit from previous years and in the largest amount refers to liabilities based on dividends on ordinary shares and preference shares in the amount of RSD 2,535,915 thousand. The payment of dividends will be made after obtaining the conditions prescribed by the Law on Banks and in accordance with dividend policy.

3.20. Capital

The Bank’s capital comprises the original founding capital, reserves from profit, revaluation reserves, accumulated result and income as the current period result.

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

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

As of 30.09.2018 the Bank's capital comprises of:

In thousand RSD	2018.	2017.
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from profit	14,223,535	11,061,535
Revaluation reserves	2,159,355	3,953,060
Profit/loss from changes in the value of debt and equity instruments	2,154,641	(3,538)
Actuarial gains	77,199	77,199
Reserves	18,614,730	15,088,256
Accumulated loss/profit	879,000	19,881
Profit	6,511,704	8,117,368
Balance as at date	**66,039,984**	**63,260,055**

Increase in reserves from profit by RSD 3,162,000 thousand compared to 2017 relates to formed reserves from the previous quarter on the basis of profit distribution in accordance with the Decision of the General Meeting of Bank's Shareholders 6380/3 of 26 April 2018.

Based on the Decision of the Securities Commission of 17 March 2011, the Bank substituted the shares (and/or a stock split) 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 capital adequacy ratio of the Bank as of 30 September 2018, calculated on the basis of the financial statements, equals 29.18% having implemented the applicable decisions of the National Bank of Serbia for 2018.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 30 September 2018 the pecuniary part of capital is above the prescribed level.

The structure of the share capital – ordinary shares as at 30.09.2018 is as follows:

Shareholder's name	% stake
The 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
BDD M&V INVESTMENTS AD BEOGRAD	1.90
Company Dunav insurance	1.53
EAST CAPITAL (lux) BALKAN FUND	1.26
GLOBAL MACRO CAPITAL OPPORTUNITIES	0.78
STANKOM Co DOO BEOGRAD	0.70
GLOBAL MACRO ABSOLUTE RETURN A	0.50
SOCIETE GENER. BANKA SERBIA - Custody account	0.48
UNICREDIT BANK Serbia AD - Custody account	0.46
Others	7.26
	100.00

4. RELATIONS WITH SUBSIDIARIES

4. A . Balance as of 30.09.2018

RECEIVABLES

In thousand RSD

Subsidiaries	Placements and loans	Interests and fees	Other assets	Impairment provision	Net	Off-Balance	Total
1. Kom.banka AD Podgorica	6,642	896	40	95	7,483	-	7,483
2. Kom. Banka AD Banja Luka	101,911	-	238	1,287	100,862	1,184,179	1,285,041
3. Kombank INVEST	-	145	-	-	145	200	345
TOTAL:	**108,553**	**1,041**	**278**	**1,382**	**108,490**	**1,184,379**	**1,292,869**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom.banka AD Podgorica	1,065,382	-	1,654	1,067,036
2. Kom. Banka AD Banja Luka	213,616	-	-	213,616
3. Kombank INVEST	25	-	-	25
TOTAL:	**1,279,023**	**-**	**1,654**	**1,280,677**

INCOME AND EXPENSES for period 01.01 – 30.09.2018

In thousand RSD

Subsidiaries	Interest income	Fee and commission income and other income	Interest expense s	Fee and commission expenses	Net income / expenses
1. Kom.banka AD Podgorica	54	2,136	-	(1)	2,189
2. Kom. Banka AD Banja Luka	2,806	3,383	-	(792)	5,397
3. Kombank INVEST	-	938	-	-	938
TOTAL:	**2,860**	**6,457**	**-**	**(793)**	**8,524**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange losses in the amount of RSD 11,543 thousand.

4. Б. Balance as of 31.12.2017

Balance as at 31.12.2017

RECEIVABLES

In thousand RSD

Subsidiaries	Placements and loans	Interests and fees	Other assets	Net	Off-Balance	Total
1. Kom.banka AD Podgorica	6,589	902	-	7,491	-	7,491
2. Kom. Banka AD Banja Luka	490,815	42	1,295	492,152	-	492,152
3. Kombank INVEST	-	119	-	119	200	319
TOTAL:	**497,404**	**1,063**	**1,295**	**499,762**	**200**	**499,962**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom.banka AD Podgorica	1,019,079	-	1,654	1,020,733
2. Kom. Banka AD Banja Luka	229,884	-	-	229,884
3. Kombank INVEST	49	-	-	49
TOTAL:	**1,249,012**	**-**	**1,654**	**1,250,666**

INCOME AND EXPENSES for period 01.01. – 30.09.2017

In thousand RSD

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

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange gains in the amount of RSD 39,014 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 of the financial result and the capital by respecting the defined framework of acceptable risk level, diversification of the risk that the Bank is exposed to, maintaining the required levels of capital adequacy, maintaining the NPL's participation in the total loan to the receiving level for the Bank, most collector of the level of non-performing loans, maintaining indicators of liquidity coverage assets above the level prescribed by the regulations and internal limits, development of the Bank's activities in accordance with business strategies, opportunities and market development this to gain competitive advantage. The objectives of risk management are in line with the Bank's planning provisions.

Taking into account the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, the Bank made significant changes in the organizational structure during the year 2017 (grouping of branches into Business centers, changes in the function of economy and population, changes in decision making), as well as changes of internal acts which regulates risk management. By amending the Strategy and the Risk Management Policy, harmonization with the changes of domestic and international regulations has been made and credit risk management in the part of the comprehensiveness of problematic receivables and exposures to one person or a group of related parties has improved.

Through a clearly defined process of introducing new and significantly altered products, services and processes related to processes and systems, the Bank analyzes their impact on future risk exposure in order to optimize their revenues and costs for the estimated risk, and minimize any potentially adverse effects on the financial result Banks.

Risk Management System

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

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

Risk Management Strategy sets out:

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

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Bank.

The Bank has identified the basic principles of risk management in order to fulfill its long-term goals:

- Organization of the business of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular business activities of the Bank;
- Comprehensive risk management;
- Effectiveness of risk management;
- Cyclical risk management;
- Developing risk management as a strategic commitment;
- Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

- Active risk management;
- Preventive measures and activities aimed at minimizing further deterioration in asset quality;
- Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
- Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
- Assessment of the borrower's financial condition;
- A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
- Segregation of bad assets;
- Principle of materiality in defining possible measures;
- Increased frequency of monitoring the value of collateral and the funds obtained from collection;
- Organizational separation of the Sector for Prevention and Management of Risk Placements;
- Inclusion in corporate governance and risk management of indicators for bad asset tracking;
- Transparent reporting.

Management policies for certain types of risk define in more detail:

- The way of organizing the Bank's risk management process and clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
- The method of assessing the risk profile of the Bank and the methodology for identification and measurement, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the Bank uses and their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
- Measures to mitigate risks and rules for the implementation of these measures;
- Method and methodology for implementing the process of internal capital adequacy assessment of the Bank;
- Principles of functioning of the internal control system;The framework and frequency of stress testing, as well as treatment in cases of adverse stress test results.

The Bank closely defines risk management process and the responsibilities and responsibilities of all organizational parts of the Banke in the risk management system by Risk management procedures.

The Bank has closely prescribed the methods and approaches used in the risk management system by Individual methodologies.

In accordance with IFRS 9, the Bank has adopted a new Methodology for assessing impairment of balance sheet assets and probable loss on off-balance sheet items, which has beenapplied since 1st of January 2018.

Jurisdiction

The Board of Directors is in charge and responsible for the adoption of risk management strategy and policy and capital management strategy, establishing a system of internal controls in the Bank and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementation of the process of internal capital adequacy assessment, and others.

The Executive Board is competent and responsible for the implementation of risk management strategy and policies and capital management strategies by adopting risk management procedures, ie identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Governing Board in relation to those activities. Also, the Executive Board analyzes the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to a person related to the Bank, and shall inform the Management Board thereof.

The Audit Committee (*the Banking Supervision Department*) is responsible and responsible for analyzing and monitoring the applied and adequate implementation of the adopted risk management strategies and policies and the internal control system. The Audit Committe report the Board of Directors at least one monthly on its activities and identified irregularities, and proposes the way in which it will be eliminated, propose improvements in risk management policies and procedures and implement the internal control system.

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

The Credit Committee decides on credit requirements within the framework of the Bank's regulations, analyzes the Bank's exposure to credit, interest and currency risk, analyzes the loan portfolio, and also proposes measures to the Executive Board of the Bank.

The risk management function defines and proposes to adopt the strategy, policies, procedures and risk management methodologies, identify, measure, mitigate, monitor and control and report on the risks to which the Bank is exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the Bank.

The asset management sector is responsible for managing assets and liquidity, as well as in managing the assets and liabilities of the Bank. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for the continuous implementation of an independent evaluation of the risk management system, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit reports the Audit Committe and the Board of Directors on its findings and recommendations.

The compliance controle function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

Risk Management Process

The Bank regularly measures, or estimates, the risks it identifies in its business. Measurement implies the application of qualitative and quantitative methods and measurement models that enable the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, the Bank determines their significance based on a comprehensive risk assessment inherent in certain Bank's products, products, activities and processes.

Risk mitigation involves diversification, transfer, reduction and / or avoidance of risks, and the Bank implements it in accordance with risk profile, risk aversion and risk tolerance.

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established by the Bank, which depend on the business strategy and market environment, as well as on the level of risk that the Bank is willing to accept.

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, ie safe and stable operation.

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

Types of Risk

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 bring 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. Considering the importance of credit risk, dispersion has been made at decision levels when placing funds of the Bank. This dispersion is provided by determining the limits to which individual persons or authorities may decide. Credit decision makers with different levels of authority are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors

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 on the other. The Bank has also established an adequate information system for full coverage of persons involved in credit risk management system and appropriate management reporting.

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

The basic principles of credit risk management are as follows:

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

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

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

The rating system is an instrument for making individual decisions and assessing risk levels of individual investments. Besides the above mentioned, rating system is used for assessing the risk level of whole portfolio, and is also used in process of loan impairment for the purpose loan ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

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

Credit risk mitigation involves 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 mitigation techniques are:

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

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

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

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

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

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

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

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

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

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

Identification of problematic and restructured claims

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

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

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

Problematic claims include all claims that are late in settling liabilities over 90 days, under any material obligation to the Bank (parent company) or subordinated companies, receivables where, on the basis of the financial situation, it is estimated that the borrower will not be able to settle its obligations in completely without taking into account the possibility of implementing credit protection instruments (regardless of whether they are late in settling liabilities), claims for which the amount of the impairment is determined on an individual basis, as well as potential liabilities based on the issued guarantees (if it is probable that they will be activated) and the irrevocable liabilities assumed (if their withdrawal would lead to the creation of claims that the Bank considers would not be collected completely without the realization of security means). Problems are also considered as claims based on: termination of recording of interest income, commissions and fees in the income statement specific adjustments for credit risk, which are calculated due to significant deterioration in credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, the restructuring of receivables due to the financial difficulties of the debtor, and the submission of a motion to initiate bankruptcy proceedings against the debtor. Problematic claims include all receivables from the debtor, if one claim is classified as a group of problematic claims.

Restructuring of the claims is approval of concessions, due to financial difficulties of the debtor, regarding the repayment of the individual claims which would not be approved to the debtor if he was not in these difficulties, regardless of whether it has matured obligations, whether the claim is impaired or the default status has occurred. The restructuring is implemented in one of the following ways: by changing the conditions under which the claim arose, particularly if the subsequently agreed repayment terms are more favorable compared to those originally agreed (interest rate reduction, write-off of part of the principal and/or interest, change the due date, etc.) as well as the refinancing of receivables. In addition, receivables that are classified in the category of restructured debts are those for which:

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

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

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

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

Downgrade Risk

The quality of the Bank's assets is measured by the level of exposure to individual risk categories according to internal rating system criteria. The internal rating system focuses on quantitative and qualitative parameters for assigning customer ratings. The rating scale consists of 5 risk categories that are subdivided into 19 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 and is acceptable for the Bank (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). Risk category 4 is divided into five sub-categories: 4+, 4 and 4- - non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

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

Risk of Change in Value of Assets

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

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

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

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

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

Individual Assessment

The Bank assesses impairment of each individually significant loan with default status (risky placement, risk subcategory 4D, 4DD and 5 according to internal rating system) i.e. loans that are classified into level 3 in accordance with IFRS 9 standard. On that occasion the Bank 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. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfillment of client's obligations towards the Bank, ad hoc assessment of loan impairment is performed.

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

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

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

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when, due to the financial difficulties of the debtor, the Bank significantly changes the conditions for repayment of claims in relation to those initially contracted;
- The debtor cannot settle his obligations in full without the realization of the collateral;
- continuous blocking of the account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation or some other type of financial reorganization of the borrower) etc.

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

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

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the asset and the present value of the estimated future cash flows whereby the Bank recognizes the existence of several possible collection scenarios when assessing the expected future cash flows. On that occasion, scenarios that can be considered are the following scenario from business operations (restructuring/agreement and the like), scenario from the collateral realization (extrajudicial/judicial/bankruptcy and other) and sale of receivables. The probability of a certain scenario the Bank estimates based on the history of the realization and collection of problematic cases, the specifics of an individual client, as well as the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

Group Assessment

Impairment is assessed on a group basis for loans with no objective evidence of impairment identified and which are not individually significant with the status default and for loans where the amount of value adjustments on the individual basis has not been determined, as well as on commissions and other receivables that do not have elements to reduce to the present value

Group assessment is carried out by groups with similar characteristics in terms of credit risk which are formed on the basis of internally prescribed methodologies (credit groups by types of clients and loans), based on the internal rating system, on a monthly basis. The loan loss impairment methodology has been significantly changed and instead IAS 39's incurred loss approach, forward-looking expected loss (ECL) approach is applied, in accordance with IFRS 9, through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies.

Group impairment is based on the expected credit losses associated with the probability of default in the next twelve months (stage 1) unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset (stage 2).

Appreciating the specifics in dealing with clients, migrations forcorporate clients, micro business, households by types of products, financial institutions and exposures to countries.

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

Assessment of Provisions for Losses on Off-Balance Sheet Items

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

Means of protection against credit risk (collaterals)

In order to protect against credit risk exposure, a common practice that the Bank uses, in addition to regular monitoring of the borrower's business is the provision of security instruments (collateral), which ensure the collection of receivables and minimize credit risk. The amount and type of collateral depends on the assessment of credit risk.

As a standard collaterals Bank accepts contractual authorizations and bills from clients, while as an additional instrument, depending on the assessment of credit risk, and the types of loans, following instruments can be agreed:

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

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

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

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

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

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

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

5.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of September 30, 2018 and December 31, 2017 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).

(000) RSD

	30.09.2018		31.12.2017	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**416,006,793**	**389,695,844**	**399,678,901**	**369,183,538**
Cash and cash funds held with the central bank	52,340,197	52,340,197	49,840,887	49,840,887
Loans and receivables due from banks and other financial institutions	22,402,452	22,174,345	29,746,347	29,543,789
Loans and receivables due from customers	178,410,654	164,376,387	171,931,966	153,897,367
Financial assets	131,902,738	131,900,839	117,288,770	117,288,767
Other assets	8,806,572	6,856,491	9,347,623	6,798,506
Non-montary assets	22,144,180	12,047,585	21,523,308	11,814,222
II. Off-Balance Sheet Items	**43,538,768**	**43,299,856**	**34,284,701**	**34,160,309**
Payment guarantees	3,190,626	3,125,203	3,443,746	3,416,712
Performance bonds	3,208,884	3,192,433	4,349,152	4,320,139
Irrevocable commitments	36,917,946	36,782,988	26,194,257	26,149,893
Other items	221,312	199,232	297,546	273,565
Total (I+II)	**459,545,561**	**432,995,700**	**433,963,602**	**403,343,847**

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

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

(000) RSD

30.09.2018	Performing receivables	Non-performing receivables	Total	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment	Net
Housing Loans	37,461,204	1,503,024	38,964,228	35,165	775,661	810,826	38,153,402
Cash Loans	29,256,463	193,925	29,450,388	67,088	130,603	197,691	29,252,697
Agricultural Loans	8,409,173	269,349	8,678,522	80,081	145,070	225,152	8,453,370
Oher Loans	5,620,593	160,716	5,781,309	16,295	140,764	157,059	5,624,250
Micro business	8,873,383	639,428	9,512,811	126,980	286,531	413,511	9,099,300
Total Retail	**89,620,815**	**2,766,443**	**92,387,258**	**325,609**	**1,478,630**	**1,804,239**	**90,583,020**
Large corporate clients	36,206,490	11,070,293	47,276,783	472,684	7,904,253	8,376,937	38,899,846
Middle corporate clients	7,755,230	1,937,340	9,692,571	113,405	1,274,973	1,388,378	8,304,193
Small corporate clients	3,701,811	1,240,159	4,941,970	35,205	639,399	674,604	4,267,367
State owned clients	10,035,972	668,394	10,704,366	59,693	147,259	206,952	10,497,414
Other	12,004,842	1,402,865	13,407,707	180,705	1,402,454	1,583,158	11,824,549
Total Corporate	**69,704,345**	**16,319,052**	**86,023,396**	**861,691**	**11,368,338**	**12,230,029**	**73,793,368**
Total	**159,325,160**	**19,085,494**	**178,410,654**	**1,187,299**	**12,846,968**	**14,034,267**	**164,376,387**
Due from Banks	**22,194,633**	**207,819**	**22,402,452**	**20,288**	**207,819**	**228,107**	**22,174,345**

(000) RSD

31.12.2017	Performing receivables	Non-performing receivables	Total	Impairment of performing receivables	Impairment of non-performing receivables	Total impairment	Net
Housing Loans	35,946,088	1,532,193	37,478,281	94,115	520,302	614,417	36,863,864
Cash Loans	24,286,208	302,978	24,589,186	200,232	229,834	430,066	24,159,120
Agricultural Loans	7,153,549	205,883	7,359,432	61,549	100,090	161,639	7,197,793
Oher Loans	5,353,083	383,880	5,736,963	76,780	372,548	449,328	5,287,635
Micro business	7,704,698	697,867	8,402,565	100,490	289,855	390,345	8,012,220
Total Retail	**80,443,626**	**3,122,801**	**83,566,427**	**533,166**	**1,512,629**	**2,045,795**	**81,520,632**
Large corporate clients	35,400,783	16,940,157	52,340,940	260,084	11,881,024	12,141,108	40,199,832
Middle corporate clients	9,776,084	2,037,738	11,813,822	54,739	1,349,336	1,404,075	10,409,747
Small corporate clients	3,979,898	1,378,923	5,358,821	64,820	685,329	750,149	4,608,672
State owned clients	9,612,889	997,190	10,610,079	89,830	166,416	256,246	10,353,833
Other	6,804,318	1,437,559	8,241,877	78	1,437,148	1,437,226	6,804,651
Total Corporate	**65,573,972**	**22,791,567**	**88,365,539**	**469,551**	**15,519,253**	**15,988,804**	**72,376,735**
Total	**146,017,598**	**25,914,368**	**171,931,966**	**1,002,717**	**17,031,882**	**18,034,599**	**153,897,367**
Due from Banks	**29,543,789**	**202,558**	**29,746,347**	**-**	**202,558**	**202,558**	**29,543,789**

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 (impaired receivables). Estimates of impairment are made for each individually significant placement with the status of non-settlement of defaults (default risk sub-category 4D and 4DD according to the internal rating system and risk categories 5), if there is objective evidence of impairment as a result of one or more events occurring after initial recognition financial assets and if there is a measurable decrease in future cash flows.

Receivables Matured but not Impaired

For receivables matured but not impaired (rating categories 1, 2, 3 and subcategories 4+, 4 and 4-), impairment is assessed by group (uncollected receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly level.

Group impairment is based on the expected credit losses associated with the probability of default in the next twelve months (stage 1) unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset (stage 2). Appreciating the specifics in dealing with clients, migrations forcorporate clients, micro business, households by types of products, financial institutions and exposures to countries.

5.1.2 Non-Performing Receivables

(000) RSD

30.09.2018	Gross Exposure	Impairment of gross exposure	Non-performing receivables	Non-performing restructured receivables	Impairment of non-performing receivables	Percentage of non-performing in total receivables (%)	The amount of collateral for non-performing receivables
Retail	**92,387,258**	**1,804,239**	**2,766,443**	**861,288**	**1,478,630**	**2,99%**	**2,505,829**
Housing Loans	38,964,228	810,826	1,503,024	440,953	775,661	3,86%	1,491,857
Cash Loans	29,450,388	197,691	193,925	29,138	130,603	0,66%	125,541
Agricultural Loans	8,678,522	225,152	269,349	17,713	145,070	3,10%	249,005
Oher Loans	5,781,309	157,059	160,716	-	140,764	2,78%	-
Micro business	9,512,811	413,511	639,428	373,483	286,531	6,72%	639,426
Total Retail	**86,023,396**	**12,230,029**	**16,319,052**	**12,378,747**	**11,368,338**	**18,97%**	**14,734,466**
Agricultural Loans	5,436,531	98,434	230,319	14,137	73,434	4,24%	230,487
Manufacturing Industry	15,681,394	2,533,024	4,510,011	3,892,165	2,407,934	28,76%	4,504,059
Electricity	122,156	3,751	37,360	-	26	30,58%	37,360
Construction Loans	7,737,083	995,183	949,460	826,364	904,099	12,27%	949,460
Wholesale and Retal	24,206,508	1,086,641	1,912,009	1,660,449	734,824	7,90%	1,905,737
Services Loans	5,431,803	1,218,472	1,480,782	1,461,083	1,174,005	27,26%	1,480,782
Real Estate Loans	3,597,904	692,409	1,325,018	977,746	690,020	36,83%	1,325,476
Other	23,810,016	5,602,116	5,874,092	3,546,803	5,383,995	24,67%	4,301,105
	178,410,654	**14,034,267**	**19,085,494**	**13,240,035**	**12,846,968**	**10,70%**	**17,240,295**
	22,402,452	**228,107**	**207,819**	**-**	**207,819**	**0,93%**	**-**

(000) RSD

31.12.2017	Gross Exposure	Gross Value Adjustment	Loans matured and not impaired	Restructured Loans matured and not impaired	Impairment	Participation of Impaired Loans in Total Loans (%)	Collateral for Impaired Loans
Retail	**83,566,427**	**2,045,795**	**3,122,801**	**859,561**	**1,512,629**	**3,74%**	**2,648,094**
Housing Loans	37,478,281	614,417	1,532,194	430,253	520,302	4,09%	1,511,866
Cash Loans	24,589,186	430,066	302,978	27,510	229,833	1,23%	232,677
Agricultural Loans	7,359,432	161,639	205,882	19,626	100,090	2,80%	196,094
Oher Loans	5,736,963	449,327	383,880	-	372,548	6,69%	10,416
Micro business	8,402,565	390,345	697,866	382,172	289,855	8,31%	697,041
Total Retail	**88,365,539**	**15,988,804**	**22,791,567**	**17,862,874**	**15,519,253**	**25,79%**	**21,102,348**
Agricultural Loans	6,066,845	161,354	253,050	28,243	113,994	4,17%	252,908
Manufacturing Industry	22,380,808	5,941,568	9,145,453	8,191,755	5,721,734	40,86%	6,591,232
Electricity	149,035	28,187	67,005	-	174	44,96%	67,005
Construction Loans	5,681,922	891,110	934,013	810,916	885,538	16,44%	1,148,489
Wholesale and Retal	22,011,868	1,845,546	3,652,235	2,846,093	1,756,203	16,59%	3,804,104
Services Loans	13,182,040	1,163,568	1,438,755	1,411,506	1,089,579	10,91%	1,465,235
Real Estate Loans	1,512,515	692,376	1,345,149	960,907	691,123	88,93%	1,370,156
Other	17,380,506	5,265,097	5,955,907	3,613,454	5,260,908	34,27%	6,403,219
	171,931,966	**18,034,599**	**25,914,368**	**18,722,435**	**17,031,882**	**15,07%**	**23,750,442**
	29,746,347	**202,558**	**202,558**	**-**	**202,558**	**0,68%**	**-**

5.1.3 Performing Receivables

(000) RSD

	30.09.2018					31.12.2017				
	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of Collaterals	Low (IR 1,2)	Medium (IR 3)	High (IR 4)	Total	Value of Collaterals
Housing Loans	37,269,817	158,996	32,391	37,461,204	37,273,918	35,707,544	228,663	9,881	35,946,088	35,671,079
Cash Loans	28,955,164	85,198	216,101	29,256,463	7,053,616	24,222,726	62,847	635	24,286,208	11,521,899
Agricultural Loans	8,374,614	30,881	3,678	8,409,173	6,544,563	7,125,547	27,708	294	7,153,549	6,059,245
Other	5,582,006	18,131	20,456	5,620,593	96,557	5,331,736	18,050	3,297	5,353,083	96,689
Micro Busines	8,400,865	375,138	97,380	8,873,383	8,873,394	7,286,079	356,729	61,890	7,704,698	7,704,263
Total Retail	**88,582,465**	**668,343**	**370,007**	**89,620,815**	**59,842,049**	**79,673,633**	**693,996**	**75,997**	**80,443,626**	**61,053,174**
Large corporate clients	31,941,020	4,036,053	229,417	36,206,490	36,250,619	34,569,288	831,495	-	35,400,783	34,954,220
Middle corporate clients	7,252,736	178,469	324,025	7,755,230	7,702,334	9,584,446	190,160	1,478	9,776,084	9,647,024
Small corporate clients	3,594,503	107,308	-	3,701,811	3,701,946	3,844,531	135,365	2	3,979,898	3,955,505
State owned clients	9,029,145	970,073	36,754	10,035,972	7,394,215	7,794,070	1,768,042	50,777	9,612,889	6,158,448
Other	12,004,637	-	205	12,004,842	8,953,429	3,052,381	3,751,885	52	6,804,318	3,752,134
Total Corporate	**63,822,041**	**5,291,903**	**590,401**	**69,704,345**	**64,002,542**	**58,844,716**	**6,676,947**	**52,309**	**65,573,972**	**58,467,332**
Total	**152,404,506**	**5,960,246**	**960,408**	**159,325,160**	**123,844,591**	**138,518,348**	**7,370,943**	**128,307**	**146,017,598**	**119,520,506**
Due from Banks	**22,194,633**	**-**	**-**	**22,194,633**	**-**	**29,543,789**	**-**	**-**	**29,543,789**	**-**

5.1.4 Restructured Receivables

Measures implemented by the Bank during the restructuring of loans

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

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

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

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

5.1.5. Concentration Risk

The Bank manages concentration risk by establishing a system of limits to the exposures with the same or similar risk factors (industry sectors/activities, product types, geographic regions, single entities or groups of related entities, collaterals…). Establishment of appropriate exposure limits is the basis for concentration risk control with the aim of loan portfolio diversification. The Bank on an annual basis, depending on market trends, risk appetite, business policy and annual business plan, reviews and if necessary changes internally set limits.

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

5.2. Liquidity Risk

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

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

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

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

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

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquid Assets Coverage	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017.	30.09.2018	31.12.2017
As at 30th	4.49	4.30	4.27	4.10	453%	436%
Average for the period	4.59	3.99	4.31	3.61	449%	
Maximum for the period	4.92	5.61	4.68	5.21	489%	-
Minimum for the period	3.95	2.79	3.76	2.41	388%	-

During the first three quarter 2018, the liquidity indicator, the narrow liquidity indicator and the indicator of liquid assets coverage ranged considerably above the defined limits.

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	30.09.2018.	31.12.2017.
GAP up to 1 month / Total assets	Max (10%)	(2.31%)	2.16%
Cumulative GAP up to 3 months / Total assets	Max (20%)	(2.23%)	5.97%

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.

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

5.3.1. Interest 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;
- Basis risk – to which the Bank is exposed due to different reference interest rates for interest rate sensitive items with similar maturity or repricing characteristics; and
- Optionality risk – to which the Bank is exposed due to contractually agreed optional terms – loans with an option of early repayment, deposits with an option of early withdrawal, etc.

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

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

The Bank estimates the impact that could have standardized interest rate shock (parallel positive and negative shift of interest rates on the reference yield curve by 200 basis points) for each significant currency individually and for all other currencies together.

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

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

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

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

Minimizing interest rate risk means maintaining this risk at a level that is acceptable for the Bank's risk profile. Alleviating interest rate risk refers to the process of defining the systems of limited exposure of the Bank to the interest rate risk and implementing measures for interest rate risk mitigation.

Control and monitoring of interest rate risk entails the process of monitoring compliance with the established system of limits as well as monitoring defined measures for reducing the Bank's exposure to the interest rate risk. Control of interest rate risk refers to control on all management levels as well as an independent control system implemented by the organizational units responsible for internal audit and compliance monitoring.

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

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

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

	Limits	30.09.2018	31.12.2017
Relative GAP	Max 15%	2.29%	2.18%
Mismatch ratio	0.75 – 1.25	1.03	1.03

During the first three quarter into 2018, interest rate risk indicators moved within internally defined limits.

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

Compliance with internally defined limits of economic value of equity:

	30.09.2018	31.12.2017
As at	4.77%	3.65%
Average for the year	4.90%	3.86%
Maximum for the year	5.72%	4.49%
Minimum for the year	4.00%	3.03%
Limit	**20%**	**20%**

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

5.3.2. Currency Risk

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

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

The Bank has established appropriate organizational structure, which allows for clear differentiation between the process of assuming currency risk and the process of managing currency risk. The Asset and Liability 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 30st:

	30.09.2018	**31.12.2017**
Total currency risk balance	2,017,771	2,248,347
Currency risk ratio	3.52%	4.40%
Legally-defined limit	20%	20%

5.4. Operational Risk

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

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

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

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

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

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

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

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

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

5.5. The Bank's Investment Risks

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

5.6. Exposure Risk

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

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

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

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

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

5.7. Country Risk

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

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

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

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

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

5.8. Capital management

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

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

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

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

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

Capital adequacy ratio		**(000) RSD**
	30.09.2018.	**31.12.2017**
Tier 1 (T1) Capital	58,649,280	55,122,806
Common Equity Tier 1 (CET1) Capital	58,275,770	54,749,296
Additional Tier 1 (AT1) Capital	373,510	373,510
Tier 2 (T2) Capital	-	-
Deductible items	(1,335,067)	(3,992,144)
Capital	**57,314,213**	**51,130,662**
Credit risk-weighted assets	159,580,701	146,903,022
Operational risk exposure	31,379,213	31,680,737
Foreign currency risk exposure	5,450,675	4,761,814
Capital adequacy ratio (min. 14.21%)	**29.18%**	**27.89%**
Share capital adequacy ratio (min. 12.21%)	**29.18%**	**27.89%**
Basic share capital adequacy ratio (min. 10.71%)	**28.99%**	**27.68%**

During the third quarter of 2018, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of the adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively).

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

During Q3 2018, the Bank also calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of Tier 1 capital and the amount of risk weighted exposures that are included in the calculation of the ratio.

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

- strategic goals and the period for their realization;
- a description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- procedures for planning an adequate level of available internal capital;
- the way to reach and maintain an adequate level of available internal capital;
- restrictions on available internal capital;
- demonstrating and explaining the effects of stress testing on internal capital requirements;
- allocation of capital;
- business plan in case of occurrence of unforeseen events.

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

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

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

Stages of the internal capital adequacy assessment include the following:

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

6. EVENTS AFTER THE BALANCE SHEET DATE

On 17 October 2018 the extraordinary General Meeting of Bank's Shareholders was held at which the decisions were adopted on altering certain members of the Bank's Board of Directors.

7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet positions in Dinars (RSD) on 30 September 2018 and 31 December 2017 for certain main currencies are as follows:

Currencies	Official NBS exchange rate	
	2018	2017
USD	101.6899	99.1155
EUR	118.4179	118.4727
CHF	104.1036	101.2847

In Belgrade,

On 06.11.2018

Persons responsible for preparation of the financial statements

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STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2018 to 30/09/2018 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 International Accounting Standards and International Financial Reporting Standards (IAS and IFRS).

Persons responsible for the preparation of financial statements

Sanja Đeković
Executive Director for
Finance and Accounting

Miroslav Perić
Member of the Executive Board

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STATEMENT

Individual financial statements of Komercijalna banka AD Beograd for the period 01.01.2018. until 30.09.2018. have not been audited.

In accordance with the Law on Accounting, the Law on Banks and other relevant bylaws of the National Bank of Serbia, Komercijalna Banka AD Belgrade only audits the annual financial statements.

The statement is made in accordance with Article 52, paragraph 7 of the Law on the Capital Market.

Persons responsible for the preparation of financial statements

Sanja Đeković	Miroslav Perić
Executive Director for Finance and Accounting	Member of the Executive Board