KOMERCIJALNA BANKA

Meni najbliža

# REPORT

## ON OPERATIONS IN THE SECOND QUARTER 2015

BELGRADE, JULY 2015

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Quarterly report for the second quarter 2015 is an accurate presentation of the development and operating results of KOMERCIJALNA BANKA AD BEOGRAD that were generated in the second quarter of 2015, as well as in the first six months of 2015.

# 1. OVERVIEW OF KEY PERFORMANCE INDICATORS FOR THE PERIOD BETWEEN 31.12.2014 AND 30.06.2015

## 1.1. Bank's Performance Indicators

| ITEM | 30.06.15 | 31.05.15 | 30.04.15 | 31.03.15 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| **BALANCE SHEET** (000 RSD) | | | | | | |
| Balance-sheet assets | 389,873,900 | 392,290,603 | 393,834,236 | 392,989,112 | 406,261,524 | 362,786,319 |
| Off-balance-sheet operations | 537,353,663 | 539,013,282 | 543,534,418 | 541,206,433 | 373,803,974 | 224,949,027 |
| **RETAIL** | | | | | | |
| Loans[1] | 69,868,724 | 69,474,569 | 68,988,671 | 68,907,211 | 69,039,387 | 61,848,487 |
| Deposits[2] | 211,903,236 | 210,060,055 | 208,537,883 | 207,723,147 | 207,430,548 | 186,766,804 |
| **CORPORATE** | | | | | | |
| Loans | 100,002,529 | 99,982,173 | 100,514,053 | 105,718,210 | 112,768,251 | 112,261,312 |
| Deposits | 50,155,326 | 53,583,009 | 54,531,453 | 54,196,334 | 57,437,462 | 42,131,535 |

| ITEM | 30.06.15 | 31.05.15 | 30.04.15 | 31.03.15 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| **PROFIT AND LOSS ACCOUNT** (000 RSD) | | | | | | |
| Profit before tax | 696,310 | 305,231 | 211,424 | 207,932 | 4,757,589 | 4,588,375 |
| Net interest income | 6,903,087 | 5,787,139 | 4,611,721 | 3,460,981 | 13,298,586 | 12,929,237 |
| Net fee income | 2,372,074 | 1,940,618 | 1,554,875 | 1,143,900 | 4,717,757 | 4,565,148 |
| **PROFITABILITY RATIOS** | | | | | | |
| ROA | 0.35% | 0.18% | 0.16% | 0.21% | 1.25% | 1.3% |
| ROE – on share capital | 3.48% | 1.83% | 1.58% | 2.08% | 11.88% | 11.5% |
| ROE – on total capital | 2.00% | 1.04% | 0.90% | 1.19% | 7.05% | 7.3% |
| Net interest margin on total assets | 3.48% | 3.49% | 3.47% | 3.45% | 3.49% | 3.7% |
| Cost / income ratio | 58.09% | 58.19% | 57.39% | 57.63% | 59.65% | 58.0% |
| Operating expenses (000 RSD)[3] | 5,387,976 | 4,496,971 | 3,539,168 | 2,653,638 | 10,745,910 | 10,161,794 |
| Net expense for indirect loan write-off and provisions (000 RSD) | -2,918,607 | -2,665,466 | -2,055,273 | -1,391,544 | -2,725,389 | -3,220,075 |
| FX risk ratio | 6.17% | 6.82% | 1.95% | 6.50% | 2.90% | 2.12% |
| Liquidity ratio | 3.19 | 3.32 | 3.04 | 3.49 | 2.84 | 3.45 |
| Operating cash flows | 5,180,475 | 4,120,850 | 3,524,352 | 2,797,806 | 7,121,339 | 6,824,563 |

| ITEM | 30.06.15. | 31.05.15. | 30.04.15. | 31.03.15. | 2014. | 2013. |
|---|---|---|---|---|---|---|
| **RATIO LOANS/DEPOSITS** | | | | | | |
| Gross loans/deposits | 69.98% | 71.21% | 70.76% | 73.60% | 72.45% | 77.8% |
| Net loans/deposits | 62.52% | 63.87% | 63.68% | 66.68% | 66.33% | 72.0% |
| **CAPITAL** (000 RSD) | 68,129,218 | 70,148,250 | 70,080,653 | 70,092,635 | 69,546,804 | 64,962,218 |
| CAR | 20.79% | 18.05% | 18.21% | 17.38% | 17.67% | 19.0% |
| Number of employees | 2,897 | 2,895 | 2,893 | 2,895 | 2,906 | 2,966 |
| Assets per employee (000 EUR) | 1,116 | 1,124 | 1,133 | 1,129 | 1,156 | 1,067 |
| Assets per employee (000 RSD) | 134,578 | 135,506 | 136,134 | 135,748 | 139,801 | 122,315 |

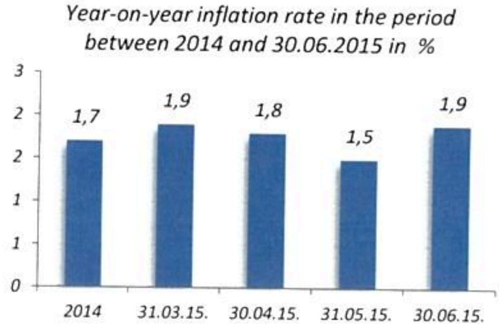
1 Loans (retail and corporate) do not include other loans and receivables.

2 Deposits do not include other liabilities and funds received as credit lines.

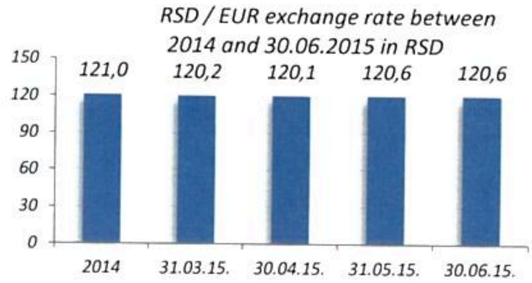
3 Operating expenses show the cost of salaries, tangible and intangible operating expenses.

## 2. MACROECONOMIC OPERATING CONDITIONS IN THE PERIOD BETWEEN 31.12.2014 AND 30.06.2015

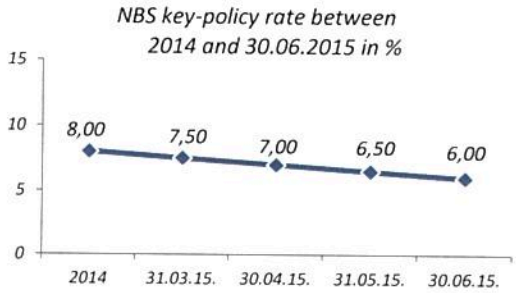
During the second, as well as the first quarter of the current year, the y-o-y inflation ranged below the lower limit of allowed departure. Deflationary effects came from low aggregate demand and low inflation in the region. In the upcoming period inflation is expected to return within the targeted limits (4.0±1.5%) due to monetary policy measures that have been taken and also due to the factors that had a deflationary effect, such as the absence of the expected growth in regulated prices.



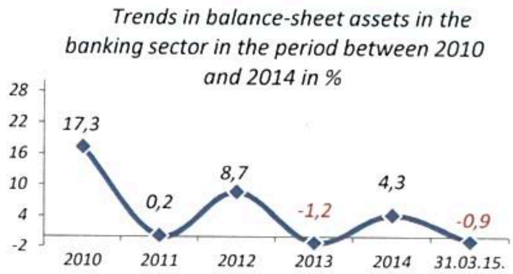

In the first half of this year the dinar appreciated negligibly against the euro. RSD exchange rate stabilized at around 120 dinars to the euro.



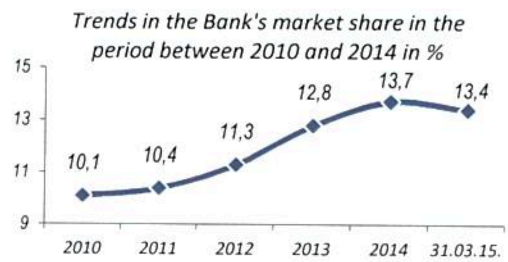

NBS key policy rate went down to 6.0% on 11 June 2015. The rate decreased because the deflationary pressures were still present from aggregate demand, prices in the international market and prices on the primary product market. Monetary policy measures, the effects of ECB's quantitative easing, the first successful revision of the program with the IMF, the effect of regulated prices and the price of petroleum products, which jointly resulted in the positive opinion of investors to invest in Serbia.




At the end of the first quarter, the banking sector in the Republic of Serbia recorded a slight decrease in balance-sheet assets (-0.9%), compared to the previous year when there was an increase (4.3%). Such fluctuations in the activities of the sector are understandable, given the increase in credit risk.




During 2014 and in the first quarter of 2015, the Bank increased its share in the total balance-sheet assets of the banking sector. During the observed period, the Bank's market share in the banking sector's assets increased by 3.3 percentage points.



## 3. KEY PERFORMANCE INDICATORS OF THE BANK IN THE PERIOD BETWEEN 31.12.2014 AND 30.06.2015

| ITEM | 30.06.15. | 31.05.15. | 30.04.15. | 31.03.15. | 2014. | 2013. |
|---|---|---|---|---|---|---|
| **BALANCE SHEET** (000 RSD) | | | | | | |
| Balance-sheet assets | 389,873,900 | 392,290,603 | 393,834,236 | 392,989,112 | 406,261,524 | 362,786,319 |
| Off-balance-sheet operations | 537,353,663 | 539,013,282 | 543,534,418 | 541,206,433 | 373,803,974 | 224,949,027 |
| **RETAIL** | | | | | | |
| Loans | 69,868,724 | 69,474,569 | 68,988,671 | 68,907,211 | 69,039,387 | 61,848,487 |
| Deposits | 211,903,236 | 210,060,055 | 208,537,883 | 207,723,147 | 207,430,548 | 186,766,804 |
| **CORPORATE** | | | | | | |
| Loans | 100,002,529 | 99,982,173 | 100,514,053 | 105,718,210 | 112,768,251 | 112,261,312 |
| Deposits | 50,155,326 | 53,583,009 | 54,531,453 | 54,196,334 | 57,437,462 | 42,131,535 |

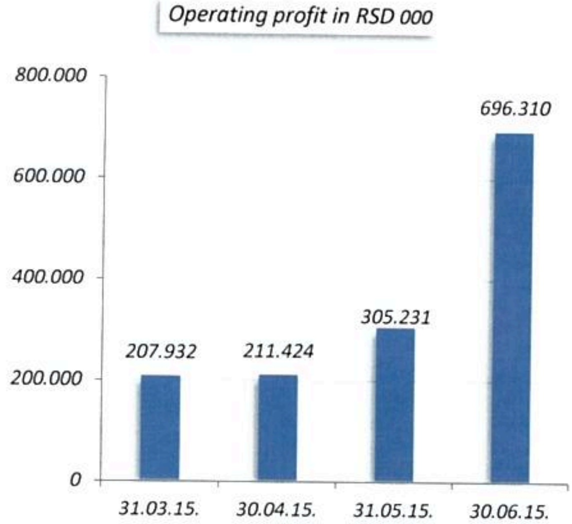
As of 30.06.2015 the Bank's balance-sheet assets amounted to RSD 389,873.9 million and went down by RSD 16,387.6 million or 4.0% compared to the end of the previous year.

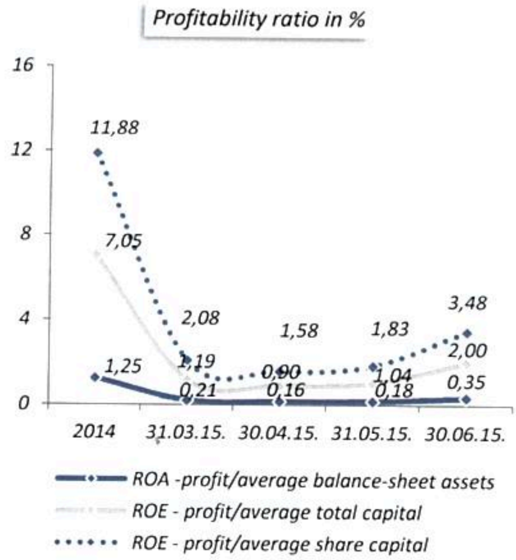
Off-balance-sheet assets increased by 43.8% in 2015 and amounted to RSD 537,353.6 million at the end of June this year.

In the first six months of 2015 the Bank disbursed loans in the amount of RSD 173,235.0 million, which was lower than the figure from the end of 2014 (-11.0%). In this same period, the Bank had its deposits decrease by RSD 16,366.3 or 5.6%. In the structure of this change, retail deposits increased by RSD 4,472.7 million, while corporate deposits decreased by RSD 20,839.0 million. These changes also include the effect of RSD appreciation against the euro (0.3%) and depreciation against the Swiss franc (-15.8%).

| ITEM | 30.06.15 | 31.05.15 | 30.04.15 | 31.03.15 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| **PROFIT AND LOSS ACCOUNT** (000 RSD) | | | | | | |
| Profit before tax | 696,310 | 305,231 | 211,424 | 207,932 | 4,757,589 | 4,588,375 |
| Net interest income | 6,903,087 | 5,787,139 | 4,611,721 | 3,460,981 | 13,298,586 | 12,929,237 |
| Net fee income | 2,372,074 | 1,940,618 | 1,554,875 | 1,143,900 | 4,717,757 | 4,565,148 |
| **PROFITABILITY RATIOS** | | | | | | |
| ROA | 0.35% | 0.18% | 0.16% | 0.21% | 1.25% | 1.33% |
| ROE – on share capital | 3.48% | 1.83% | 1.58% | 2.08% | 11.88% | 11.46% |
| ROE – on total capital | 2.00% | 1.04% | 0.90% | 1.19% | 7.05% | 7.33% |
| Net interest margin on total assets | 3.48% | 3.49% | 3.47% | 3.45% | 3.49% | 3.70% |
| Cost / income ratio | 58.09% | 58.19% | 57.39% | 57.63% | 59.65% | 58.00% |
| Operating expenses (000 RSD)[4] | 5,387,976 | 4,496,971 | 3,539,168 | 2,653,638 | 10,745,910 | 10,161,794 |
| Net cost of indirect loan write off and provisions (000 RSD) | -2,918,607 | -2,665,466 | -2,055,273 | -1,391,544 | -2,725,389 | -3,220,075 |
| FX risk ratio | 6.17% | 6.82% | 1.95% | 6.50% | 2.90% | 2.12% |
| Liquidity ratio | 3.19 | 3.32 | 3.04 | 3.49 | 2.84 | 3.45 |
| Operating cash flows | 5,180,475 | 4,120,850 | 3,524,352 | 2,797,806 | 7,121,339 | 6,824,563 |

[4] Operating expenses show the cost of salaries, tangible and intangible operating expenses.




Global financial crisis, the culmination of the Greek public debt crisis and the expected negative effect on the Greek banks and the banking sector as a whole, the inefficiency and illiquidity of the local businesses and deterioration of the loan portfolio contributed to the fact that the Bank, in the first six months this year had lower yoy profit (-70.9%). Realized profit of the Bank in the period between 01.01. and 30.06.2015 was RSD 696.3 million, which is a year-on-year decrease of RSD 1,698.8 million. Trends in operating profit in the first six months of 2015 led to the stabilisation of profitability on total capital at 2.0% and return on share capital of 3.5% (for the first six months this year).

The decisive effect on the profit in the first half of this year came from net expenses for indirect write-off of loans and provisions for off-balance-sheet items (RSD 2,918.6 million) which are RSD 1,508.9 million or 107.0 % more than in the same period the previous year, as well as the increase in other expenses of RSD 534.7 million or 18.5%. Of the positive effects, it is important to emphasise the increase in net fee income of RSD 150.7 million (6.8%).

Decreased volume of operation also decreased the assets per employee ratio. In the first six months of 2015, assets per employee went down from RSD 139.8 million (31.12.2014), to RSD 134.6 million as of 30.06.2015.

At the end of the second quarter 2015 the cost income ratio (CIR) was 58.09%, while at the end of 2014 it stood at 59.65%.

## 4. BALANCE SHEET AS OF 30.06.2015

### 4.1. The Bank's Assets as of 30.06.2015

(IN 000 RSD)

| No. | BALANCE-SHEET ITEM | 30.06.2015 | 31.12.2014 | INDICES | % OF SHARE AS OF 30.06.2015 |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(3:4)*100 | 6 |
| | **ASSETS** | | | | |
| 1. | Cash and assets with the central bank | 68,102,145 | 68,547,389 | 99.35 | 17.47 |
| 2. | Pledged financial assets | - | - | - | - |
| 3. | Financial assets at fair value through P&L intended for trade | 129,537 | 121,634 | 106.50 | 0.03 |
| 4. | Financial assets initially recognised at fair value through P&L | - | - | - | - |
| 5. | Financial assets available for sale | 103,456,744 | 95,481,249 | 108.35 | 26.54 |
| 6. | Financial assets held to maturity | 136,675 | 51,442 | 265.69 | 0.04 |
| 7. | Loans and receivables from banks and other financial organisations | 22,313,830 | 34,737,605 | 64.24 | 5.72 |
| 8. | Loans and receivables from customers | 173,688,747 | 185,377,035 | 93.69 | 44.55 |
| 9. | Change in fair value of hedged items | - | - | - | - |
| 10. | Receivables from financial derivatives intended for hedging | - | - | - | - |
| 11. | Investment in affiliations and joint ventures | - | - | - | - |
| 12. | Investment in subordinate entities | 5,480,888 | 5,480,888 | 100.00 | 1.41 |
| 13. | Intangible assets | 300,596 | 405,774 | 74.08 | 0.08 |
| 14. | Property, plant and equipment | 6,200,408 | 6,329,077 | 97.97 | 1.59 |
| 15. | Investment properties | 2,814,408 | 2,581,144 | 109.04 | 0.72 |
| 16. | Current tax assets | 76,258 | 73,835 | 103.28 | 0.02 |
| 17. | Deferred tax assets | 127,530 | - | - | 0.03 |
| 18. | Fixed assets intended for sale and assets from discontinued operations | 65,000 | 84,227 | 77.17 | 0.02 |
| 19. | Other assets | 6,981,134 | 6,990,225 | 99.87 | 1.79 |
| | **TOTAL ASSETS (from 1 to 19)** | **389,873,900** | **406,261,524** | 95.97 | 100.00 |

At the end of the second quarter 2015 the Bank's balance-sheet assets decreased by RSD 16,387.6 million or 4.0%.

Loans and receivables from customers (according to the new balance-sheet layout) decreased by RSD 11,688.3 million or 6.3%. As of 30.06.2015 total lending and receivables from customers and banks were RSD 196,002.6 million, which accounted for 50.3% of the total balance-sheet assets.

During the first six months of 2015 the item "cash and assets at the central bank" decreased by 0.6%.
The item "financial assets available for sale" grew RSD 7,975.5 million from the end of the previous year or 8.4%.

Investment properties also recorded an increase of RSD 233.3 million or 9.0%.

### 4.2. The Bank's Liabilities as of 30.06.2015

(in 000 RSD)

| No. | BALANCE-SHEET ITEM | 30.06.2015 | 31.12.2014 | INDICES | % OF SHARE AS OF 30.06.2015 |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5= (3:4)*100 | 6 |
| I | **LIABILITIES** | | | | |
| 1. | Financial liabilities at fair value through P&L intended for trade | - | - | - | - |
| 2. | Financial liabilities initially recognised at fair value through P&L | - | - | - | - |
| 3. | Liabilities from financial derivatives intended for hedging | - | - | - | - |
| 4. | Deposits and other liabilities to banks, other financial organisations and the central bank | 18,890,194 | 23,743,018 | 79.56 | 4.85 |
| 5. | Deposits and other liabilities to other customers | 288,662,985 | 301,954,911 | 95.60 | 74.04 |
| 6. | Change in fair value of hedged items | - | - | - | - |
| 7. | Issued treasury securities and other borrowed assets | - | - | - | - |
| 8. | Subordinated debt | 6,021,978 | 6,036,680 | 99.76 | 1.54 |
| 9. | Provisions | 1,781,325 | 1,640,595 | 108.58 | 0.46 |
| 10. | Liabilities for assets intended for sale and assets from discontinued operations | - | - | - | - |
| 11. | Current tax liabilities | - | - | - | - |
| 12. | Deferred tax liabilities | 277,936 | 150,407 | 184.79 | 0.07 |
| 13. | Other liabilities | 6,110,264 | 3,189,109 | 191.60 | 1.57 |
| **14.** | **TOTAL OBLIGATIONS (from 1. to 13.)** | **321,744,682** | **336,714,720** | 95.55 | 82.53 |
| | **CAPITAL** | | | | |
| 15. | Share capital | 40,034,550 | 40,034,550 | 100.00 | 10.27 |
| 16. | Treasury shares | - | - | - | - |
| 17. | Profit | 848,514 | 6,755,855 | 12.56 | 0.22 |
| 18. | Loss | - | - | - | - |
| 19. | Reserves | 27,246,154 | 22,756,399 | 119.73 | 6.99 |
| 20. | Unrealized losses | - | - | - | - |
| 21. | Non-controlling equity stakes | - | - | - | - |
| **22.** | **TOTAL CAPITAL (15-16+17-18+19-20+21)** | **68,129,218** | **69,546,804** | 97.96 | 17.47 |
| | **TOTAL LIABILITIES** | **389,873,900** | **406,261,524** | 95.97 | 100.00 |

Total obligations at the end of the first six months 2015 were RSD 321,744.7 million and accounted for 82.5% of total liabilities (31.12.2014: 82.9%). Also, RSD 68,129.3 million of total capital accounts for 17.5% (31.12.2014: 17.1%) of total liabilities. Total liabilities were lower than at the end of the previous year by RSD 14,970.0 million or 4.5%, while total capital was RSD 1,417.6 million or 2.0% lower.

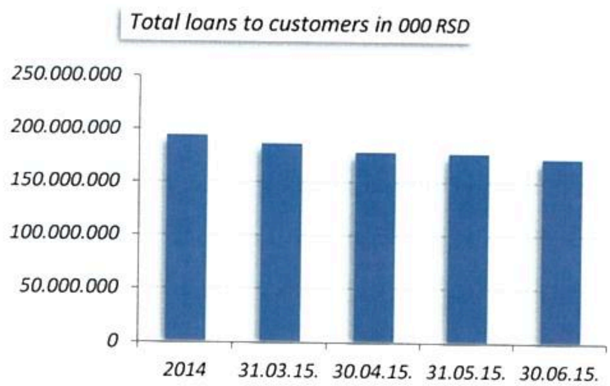
Deposits and liabilities to customers decreased in the reporting period by RSD 13,291.9 million or 4.4%, while deposits and liabilities to banks decreased compared to the end of the previous year by RSD 4,852.8 million or 20.4%.

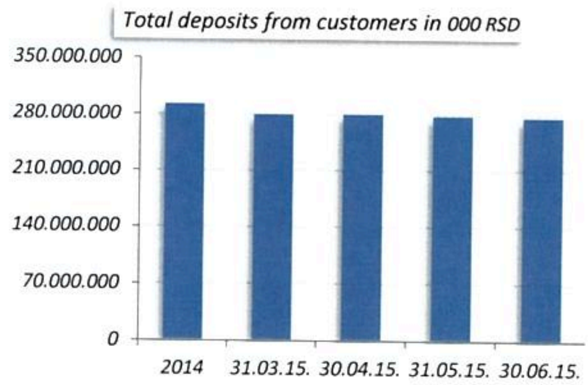
Other liabilities increased by RSD 2,921.2 million or 91.6%. Reserves recorded a more considerable increase compared to the end of the previous year of RSD 4,489.8 million or 19.7%, most of which came from the distribution of profit from 2014 and from previous years into other reserves from profit (RSD 4,300.0 million). Subordinated loan in the amount of EUR 50.0 million (RSD 6,022.0 million) was drawn down at the end of 2011 with the aim of increasing the regulatory capital.

In the first six months this year, credit lines decreased in dinar equivalent of RSD 2,124.7 million and the balance of these liabilities as of 30.06.2015 amounts to RSD 26,895.1 million.

Total deposits and other liabilities of banks and customers are RSD 307,553.2 million, which accounts for 78.9% of total balance-sheet liabilities, with a decrease from the start of the year of RSD 18,144.7 million or 5.6%.

### 4.3. Loans to Customers and Deposits from Customers as of 30.06.2015




The most important assets category – loans to customers (excluding other lending and receivables) decreased by RSD 21,426.2 million (-11.0%). The amount of disbursed loans, at the end of the second quarter 2015, was significantly affected by corporate loans that reached RSD 100,002.5 million (-11.3%) while retail loans increased by RSD 829.3 million or 1.2%. Total loans to customers and banks, as of 30.06.2015 were RSD 173,235.0 million.

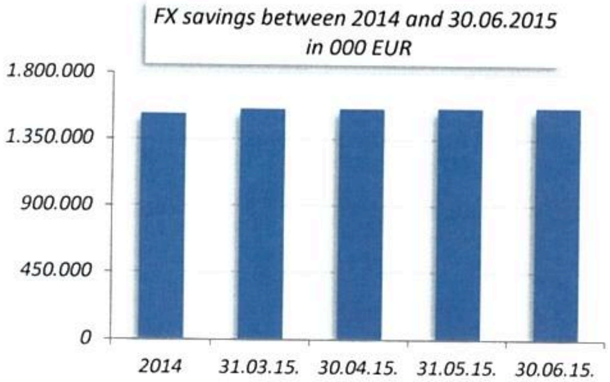
(in 000 RSD)

| No. | ITEM | BALANCE AS OF 30.06.2015 | BALANCE AS OF 31.12.2014 | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5= (3:4)*100 |
| I | LOANS TO CUSTOMERS (1.+2.+3.) | **173,234,924** | **194,661,130** | 88.99 |
| 1. | Corporate | 100,002,529 | 112,768,251 | 88.68 |
| 2. | Retail | 69,868,724 | 69,039,387 | 101.20 |
| 3. | Banks and financial organisations | 3,363,671 | 12,853,493 | 26.17 |
| II | DEPOSITS FROM CUSTOMERS (1.+2.+3.) | **277,099,867** | **293,466,122** | 94.42 |
| 1. | Corporate | 50,155,326 | 57,437,462 | 87.32 |
| 2. | Retail | 211,903,236 | 207,430,548 | 102.16 |
| 3. | Banks and financial organisations | 15,041,305 | 28,598,113 | 52.60 |

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

At the end of the second quarter 2015 deposits from customers were RSD 277,099.9 million and had decreased by 5.6%. Change in deposits (excl. other liabilities) in the first six months of the current year came mostly as a result of decrease in deposits from banks and financial organisations (RSD 13,556.8

million), decrease in corporate deposits (equivalent of RSD 7,282.1 million) and increase in retail deposits (equivalent of RSD 4,472.7 million). At the end of the second quarter, within these changes, retail FX savings increased by EUR 47.4 million from the end of the previous year.




With its reputation of a safe and stable bank on the Serbian market, the Bank managed to increase FX savings in the observed period by 47.4 million euros or 3.1%.

Despite the still present economic crisis, retail FX savings incrased in the first six months of 2015 and reached RSD 1,569.6 million.

Savers's trust enabled the Bank to maintain its leading position in the Serbian banking sector in terms of received FX savings, image and recognition.

### 4.4. Commission Operations and Off-Balance-Sheet Items in 2015

(in 000 RSD)

| No. | ITEM | BALANCE AS OF 30.06.2015 | BALANCE AS OF 31.12.2014 | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(3:4)*100 |
| I | **ACTIVITIES FOR AND ON BEHALF OF THIRD PARTIES (commission activities)** | **5,422,111** | **5,500,690** | 98.57 |
| II | **CONTINGENT LIABILITIES** | **26,712,430** | **29,774,694** | 89.72 |
| 1. | Payable guarantees | 4,756,827 | 4,767,131 | 99.78 |
| 2. | Performance bonds | 6,721,518 | 7,832,355 | 85.82 |
| 3. | Bill guarantees and acceptances | 2,061 | 27,185 | 7.58 |
| 4. | Undrawn commitments | 14,687,380 | 16,376,020 | 89.69 |
| 5. | Other off-balance-sheet items that might result in payment | 339,988 | 744,294 | 45.68 |
| 6. | Uncovered letters of credit | 204,656 | 27,709 | 738.59 |
| III | **OFF-BALANCE-SHEET ITEMS THAT ARE NOT CLASSIFIED** | **505,219,122** | **338,528,590** | 149.24 |
| 1. | FX savings bonds | 3,143,956 | 3,811,270 | 82.49 |
| 2. | Securities in the depository | 221,130,620 | 204,783,314 | 107.98 |
| 3. | Other off-balance-sheet items | 280,944,546 | 129,934,006 | 216.22 |
| | **TOTAL (I +II+III)** | **537,353,663** | **373,803,974** | 143.75 |

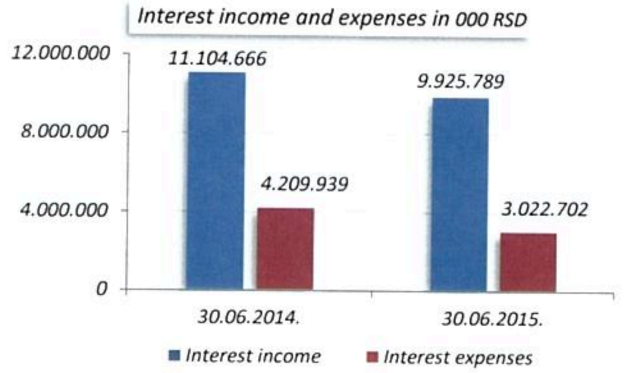
As of 30.06.2015 contingent off-balance-sheet liabilities amounted to a total of RSD 26,712.4 million, which is a decrease of RSD 3,062.3 million or 10.3% compared to the end of the previous year, due to the more significant decrease in undrawn commitments and performance bonds.

## 5. PROFIT&LOSS ACCOUNT FOR THE PERIOD BETWEEN 01.01.2015 AND 30.06.2015

(IN 000 RSD)

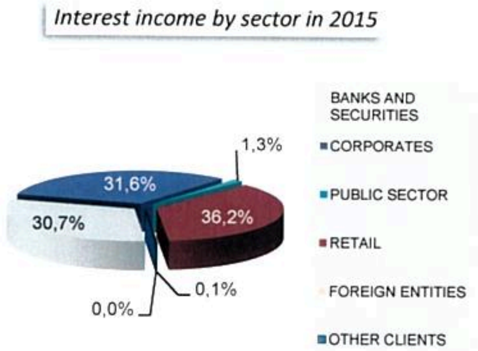
| No. | BALANCE-SHEET ITEM | 30.06.2015 | 30.06.2014 | INDICES |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(3:4)*100 |
| | **OPERATING INCOME AND EXPENSES** | | | |
| 1.1. | Interest income | 9,925,789 | 11,104,666 | 89.38 |
| 1.2. | Interest expenses | 3,022,702 | 4,209,939 | 71.80 |
| **1.** | **Net interest income/expenses** | **6,903,087** | **6,894,727** | 100.12 |
| 2.1. | Fee and commission income | 2,896,747 | 2,663,298 | 108.77 |
| 2.2. | Fee and commission expenses | 524,674 | 441,970 | 118.71 |
| **2.** | **Net fee and commission income/expenses** | **2,372,073** | **2,221,328** | 106.79 |
| 3. | Net gains/loss from financial assets intended for trade | 2,036 | 2,800 | 72.71 |
| 4. | Net gains/loss from hedging | - | - | - |
| 5. | Net gains/loss from financial assets initially recognised at fair value through profit&loss | - | - | - |
| 6. | Net gains/loss from financial assets available for sale | 11,856 | 8,248 | 143.74 |
| 7. | Net income/loss from exchange rate differentials and the effects of contracted currency clause | 13,219 | -75,962 | -17.40 |
| 8. | Net gains/loss from investment in affiliations and joint ventures | - | - | - |
| 9. | Other operating income | 209,169 | 154,231 | 135.62 |
| 10. | Net income/expenses from decreased impairment of financial assets and off-balance-sheet items that bear credit risk | -2,918,607 | -1,409,753 | 207.03 |
| **11.** | **TOTAL NET OPERATING INCOME** | **6,592,833** | **7,795,619** | 84.57 |
| **12.** | **TOTAL NET OPERATING EXPENSES** | - | - | - |
| 13. | Cost of salaries, allowances and other personnel expenses | 2,058,986 | 2,090,603 | 98.49 |
| 14. | Depreciation cost | 413,958 | 420,984 | 98.33 |
| 15. | Other expenses | 3,423,579 | 2,888,899 | 118.51 |
| **16.** | **PROFIT BEFORE TAX** | **696,310** | **2,395,133** | 29.07 |
| **17.** | **LOSS BEFORE TAX** | - | - | - |
| 18. | Profit tax | - | - | - |
| 19. | Profit from deferred taxes | - | - | - |
| 20. | Loss from deferred taxes | - | - | - |
| **21.** | **PROFIT AFTER TAX** | **696,310** | **2,395,133** | 29.07 |
| **22.** | **LOSS AFTER TAX** | - | - | - |
| 23. | Net profit from discontinued operations | - | - | - |
| 24. | Net loss from discontinued operations | - | - | - |
| **25.** | **RESULT FOR THE PERIOD – PROFIT** | **696,310** | **2,395,133** | 29.07 |
| **26.** | **RESULT FOR THE PERIOD - LOSS** | - | - | - |
| 27. | Profit attributable to the parent entity | - | - | - |
| 28. | Profit attributable to the owners with no controlling rights | - | - | - |
| 29. | Loss attributable to the parent entity | - | - | - |
| 30. | Loss attributable to the owners with no controlling rights | - | - | - |
| 31. | Earnings per share | - | - | - |
| 32. | Basic earnings per share | - | - | - |
| 33. | Diluted earnings per share | - | - | - |

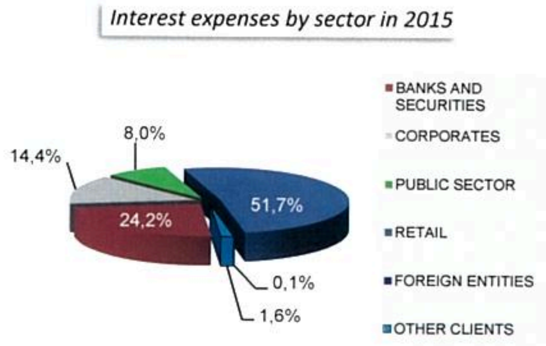
### 5.1. Interest Income and Expenses




Interest gains were RSD 6,903.1 million, which is a year-on-year increase of 0.1%.

At the end of the second quarter of the current year, interest income was lower y-o-y by RSD 1,178.9 million or 10.6%, while interest expenses decreased by RSD 1,187,2 million or 28.2%.



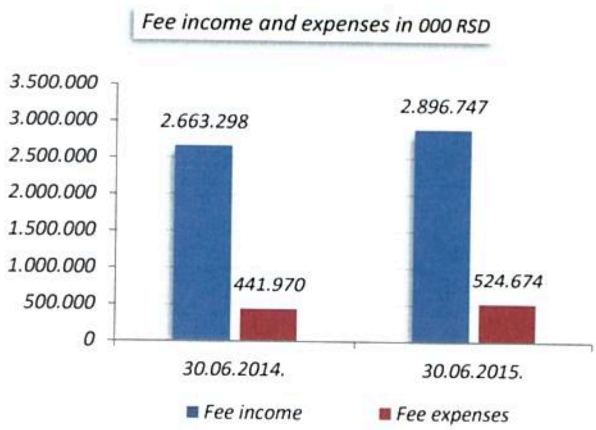




In the structure of interest income, retail interest income accounts for the largest share (RSD 3,592.0 million or 36.2%). Interest expenses are also dominated by interest on retail deposits (RSD 1,562.2 million or 51.7%), which resulted mostly from interest expenses on received FX savings.


| | 2014 | April | May | June |
|---|---|---|---|---|
| Average lending rate | 5,6 | 5,0 | 5,0 | 5,0 |
| Average borrowing rate | 2,1 | 1,6 | 1,6 | 1,5 |
| Average interest margin | 3,5 | 3,4 | 3,4 | 3,5 |

At the end of the second quarter 2015, the average lending rate was 5.0%, while the average borrowing rate was 1.5%, so the Bank's average interest margin was 3.5% in the observed period of 2015.

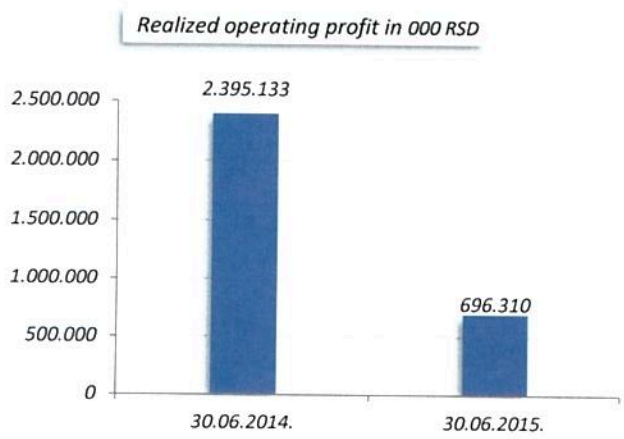
### 5.2. Fee Income and Expenses




Fee and commission income from banking services increased y-o-y by RSD 233.4 million or 8.8%, while fee and interest expenses increased by RSD 82.7 million or 18.7%.

Fee and commission gains increased in the first six months of 2015 and amount to RSD 2,372.1 million, which is a year on year increase of 6.8%.

### 5.3. Realized Operating Profit




The second quarter of 2015 is characterized by unpredictable macroeconomic operating conditions, especially the escalation of the Greek public debt crisis and a slight recovery of Serbian industry. In the period between 01 January and 30 June 2015 the Bank realized an operating profit of RSD 696.3 million, which is a y-o-y decrease of RSD 1,698.8 million.

This amount of realized operating profit secured for the Bank, in the first six months of 2015, a return on total capital of 2.0%, i.e. return on share capital of 3.5%.

**PERFORMANCE INDICATORS PRESCRIBED BY THE LAW ON BANKS**

| No. | ITEM | PRESCRIBED | 30.06.2015 | 2014 |
|---|---|---|---|---|
| 1. | CAPITAL ADEQUACY RATIO (NET CAPITAL / CREDIT RISK + OPERATING RISKS + OPEN FX POSITION) | MIN. 12% | 20.79% | 17.67% |
| 2. | RATIO OF INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR AND IN FIXED ASSETS | MAX. 60% | 24.67% | 27.60% |
| 3. | LARGE EXPOSURE RATIO | MAX. 400% | 125.81% | 160.59% |
| 4. | FX RISK RATIO | MAX. 20% | 6.17% | 2.90% |
| 5. | LIQUIDITY RATIO | MIN. 0,8 | 3.19 | 2.84 |

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

A detailed description of the key risks and threats the Bank will be exposed to in the upcoming period is given in chapter Risk Management, Notes to Financial Statements.

## 7. ALL MAJOR TRANSACTIONS WITH RELATED ENTITIES

As of 30.06.2015 the following entities are related to the Bank:

1. Komercijalna banka a.d. Budva, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d. Beograd,
4. five legal entities (Lasta doo, Viš trade doo, Menta doo, Meplast doo Kruševac, Futura Faculty of Applied Ecology Belgrade) and a large number of private individuals, according to the provisions of Article 2 of the Law on Banks in the part that defines the term "entity related to the bank".

As of 30.06.2015 total exposure to entities related to the Bank was RSD 728,183 thousand i.e. 1.99% of capital that amounts to RSD 36,573,749 thousand (maximum value of total loans to all entities related to the Bank is 20% of capital, in accordance with the Law on Banks).

The largest part of exposure to entities relates to the Bank, as of 30.06.2015, is the amount of RSD 636,650 thousand or 1.74% of the Bank's capital and these are the loans to private individuals who are related to the Bank.

In accordance with Article 37 of the Law on Banks, the Bank did not grant loans to entities related to the bank on conditions that are more favourable than those offered to other entities that are unrelated to the Bank.

A more detailed description of the Bank's relationship with its related entities is given in item Related Entities, Notes to Financial Statements.

## 8. KEY INFORMATION ON BUSINESS PLAN PERFORMANCE FOR 2015

Performance of the Strategy and Business Plan in the first six months of 2015 was carried out within the following macroeconomic operating conditions, of which we would like to emphasise the following:

-there was a decrease in GDP of 1.8% y-o-y in the first quarter 2015; GDP is planned to stagnate throughout the year (IMF, NBS),

-stable exchange rate of the dinar at approx. 120 dinars to the euro (RSD exchange rate against the euro – planned at the end of the current year: 1 euro – 125.00 dinars (KB), actual rate as of 30.06.2015: 1 euro = 120.60 dinars),

-inflation (year on year, June 2015 / June 2014: +1.9%) has a slightly rising tendency and is currently below the lower limit of the targeted rate (4.0±1.5%).

Apart from everything stated above, the operation of banks in the first six months of 2015 was considerably affected by the still present public debt crisis in certain eurozone countries, implementation of fiscal consolidation measures and their initial results, foreign investors' reluctance to invest in Serbia, decrease in the number of disbursed loans, especially to the corporate sector (RSD -23.6bn[5]), decrease in consolidated deficit (RSD -35.3bn[6], January - June 2015) compared to the same period last year, increase in public debt (71.8% of GDP[7]). Also, there was the greatest decrease in risk premium in the region[8], over 33 bp, mostly due to the arrangement signed with the IMF and the country's unchanged credit rating. The recovery of economic activity, export oriented industries, especially manufacturing industry, was accelerated and came as a result of the growth in external demand.

### 8.1. Planned and Realized Values of Balance-Sheet in the Second Quarter 2015

At the end of the second quarter 2015 the Bank's total balance-sheet assets were RSD 389,874.0 million and were RSD 2,136.1 million or -0.5% lower than the value planned for this period. There were considerable positive departures from the planned values in cash and cash equivalents. Realized value is RSD 15,336.8 million or +45.1% higher on the balance-sheet date.

Decrease in realized value against the planned one was recorded especially in the item loans and deposits (excluding other lending and receivables) – decrease of RSD 18,796.4 million (-9.8%), and in the item callable deposits and loans – decrease of RSD 14,209.5 million (-28.3%).

Positive departure from the planned values in the structure of balance-sheet liabilities was recorded in deposits (RSD 1,750.3 million, observed according to the previous balance-sheet layout), which was mostly contributed by the growth of deposits from banks and other financial organisations (RSD 2,469.9 million), while a negative departure was recorded in other liabilities – decrease of RSD 2,849.2 million.

Trends in the value of dinar – appreciation (0.3% against the EUR) increased somewhat the departure of realized values from the planned ones.

*Realized and planned values of assets and liabilities in the balance-sheet as at 30.06.2015:*

(In RSD m)

| No. | ITEM | Planned 30.06.2015 | Realized 30.06.2015. | Performance of plan in % |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=4/3 |
| | **ASSETS** | | | |
| 1. | Cash and cash equivalents | 34,013 | 49.349 | 145,09 |
| 2. | Callable deposits and loans | 50,290 | 36.080 | 71,74 |
| 3. | **Loans and deposits to customers (3.1.+3.2.+3.3.)** | **192,031** | **173.235** | 90,21 |
| 3.1. | Companies | 107,500 | 100.003 | 93,03 |
| 3.2. | Retail | 72,548 | 69.869 | 96,31 |
| 3.3. | Banks and financial organisations | 11,984 | 3.364 | 28,07 |
| 4. | Other assets | 115,676 | 131.209 | 113,43 |
| 5. | **TOTAL ASSETS (1.+2.+3.+4.)** | **392,010** | **389.874** | 99,46 |

5 NBS, Consolidated Balance-Sheet of Banks, 22 July 2015
6 Ministry of Finance of RS, Current Macroeconomic Trends, July 2015
7 Ministry of Finance of RS, Current Macroeconomic Trends, July 2015
8 NBS, Inflation Report, May 2015

(In RSD m)

| No. | ITEM | Planned 30.06.2015 | Realized 30.06.2015. | Performance of plan in % |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=4/3 |
| | **LIABILITIES** | | | |
| **1.** | **Deposits** | **275,350** | **277,100** | 100.64 |
| 1.1. | Corporates | 50,782 | 50,155 | 98.77 |
| 1.2. | Retail | 211,997 | 211,903 | 99.96 |
| 1.3. | Banks and financial organisations | 12,571 | 15,041 | 119.65 |
| 2. | Other liabilities | 47,494 | 44,645 | 94.00 |
| **3.** | **Total liabilities (1.+2.)** | **322,844** | **321,745** | 99.66 |
| **4.** | **Total capital** | **69,166** | **68,129** | 98.50 |
| **5.** | **TOTAL LIABILITIES (3.+4.)** | **392,010** | **389,874** | 99.46 |

## 8.2. Planned and Realized Values of Profit&Loss Account between 01.01. - 30.06.2015

(IN 000 RSD)

| No. | ITEM | Planned 01.01.-30.06.2015. | Realized 01.01.-30.06.2015. | Performance of the plan in % |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=4/3 |
| 1.1. | Interest income | 10,339 | 9,926 | 96.01 |
| 1.2. | Interest expenses | 3,576 | 3,023 | 84.53 |
| **1.** | **Interest gains (1.1.-1.2.)** | **6,762** | **6,903** | 102.08 |
| 2.1. | Fee and commission income | 2,906 | 2,897 | 99.69 |
| 2.2. | Fee and commission expenses | 555 | 525 | 94.62 |
| **2.** | **Fee and commission gains (2.1. -2.2.)** | **2,351** | **2,372** | 100.89 |
| 3. | Net exchange rate gains and revaluation (currency clause) | 50 | 13 | 26.44 |
| 4. | Net other operating income and expenses | 171 | -285 | -166.95 |
| 5. | Net expenses/income from indirect loan write-off and provisions | -1,600 | -2,919 | 182.41 |
| 6. | Operating expenses | 5,360 | 5,388 | 100.53 |
| **7.** | **OPERATING PROFIT** | **2,375** | **696** | 29.32 |

Positive departure in the profit&loss was recorded in interest gains (realized value was RSD 140.6 million greater than planned), fee and commission gains (realized value was RSD 20.9 million greater than planned).

In the period between 1 January and 30 June the Bank realized profit before tax of RSD 696.3 million, which is 29.3% of the value planned for this period. The decisive effect on the level of realized profit came from net expenses for indirect loan write-off and provisions for off-balance-sheet items (RSD 2,918.6 million) which was RSD 1,318.6 million or 82.4 % above the plan for the period.

Belgrade, July 2015

**KOMERCIJALNA BANKA AD BEOGRAD**

Director of the Financial Controlling, Planning and Budgeting

Vasimir Ismailović

Executive Director for Accounting

Savo Petrović

## BALANCE SHEET

on 30.06.2015.

(in RSD thousand)

| POSITION | ADP code | Amount: Current year ammount | Amount: Previous year ammount |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| **ASSETS** | | | |
| Cash and balances with central banks | 0001 | 68.102.145 | 68.547.389 |
| Pledged funds | 0002 | - | - |
| Financial assets at fair value through profit or loss held for trading | 0003 | 129.537 | 121.634 |
| Financial assets initially recognized at fair value through profit or loss | 0004 | - | - |
| Financial assets available for sale | 0005 | 103.456.744 | 95.481.249 |
| Financial assets held to maturity | 0006 | 136.675 | 51.442 |
| Loans and advances to banks and other financial institutions | 0007 | 22.313.830 | 34.737.605 |
| Loans and advances to clients | 0008 | 173.688.747 | 185.377.035 |
| Changes in fair value of items that are the subject of hedging | 0009 | - | - |
| Receivables from financial derivatives held for hedging | 0010 | - | - |
| Investments in associates and joint ventures | 0011 | - | - |
| Investments in subsidiaries | 0012 | 5.480.888 | 5.480.888 |
| Intangible assets | 0013 | 300.596 | 405.774 |
| Property, plant and equipment | 0014 | 6.200.408 | 6.329.077 |
| Investment property | 0015 | 2.814.408 | 2.581.144 |
| Current tax assets | 0016 | 76.258 | 73.835 |
| Deferred tax assets | 0017 | 127.530 | - |
| Non-current assets held for sale and assets of discontinued operations | 0018 | 65.000 | 84.227 |
| Other assets | 0019 | 6.981.134 | 6.990.225 |
| **TOTAL ASSETS (from 0001 to 0019)** | 0020 | 389.873.900 | 406.261.524 |
| **LIABILITIES** | | | |
| Financial liabilities at fair value through profit or loss held for trading | 0401 | - | - |
| Financial liabilities initially recognized at fair value through profit or loss | 0402 | - | - |
| Liabilities from financial derivatives held for hedging | 0403 | - | - |
| Deposits and other liabilities to banks, other financial institutions and the central bank | 0404 | 18.890.194 | 23.743.018 |
| Deposits and other liabilities to other clients | 0405 | 288.662.985 | 301.954.911 |
| Changes in fair value of items that are the subject of hedging | 0406 | - | - |
| Issued own securities and other borrowed funds | 0407 | - | - |
| Subordinated liabilities | 0408 | 6.021.978 | 6.036.680 |
| Provisions | 0409 | 1.781.325 | 1.640.595 |
| Liabilities from non-current assets held for sale and assets of discontinued operations | 0410 | - | - |
| Current tax liabilities | 0411 | - | - |
| Deferred tax liabilities | 0412 | 277.936 | 150.407 |
| Other liabilities | 0413 | 6.110.264 | 3.189.109 |
| **TOTAL LIABILITIES (from 0401 to 0413)** | 0414 | 321.744.682 | 336.714.720 |
| **EQUITY** | | | |
| Equity | 0415 | 40.034.550 | 40.034.550 |
| Own shares | 0416 | - | - |
| Profit | 0417 | 848.514 | 6.755.855 |
| Loss | 0418 | - | - |
| Reserves | 0419 | 27.246.154 | 22.756.399 |
| Unrealized losses | 0420 | - | - |
| Shares without control | 0421 | - | - |
| **TOTAL EQUITY (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0** | 0422 | 68.129.218 | 69.546.804 |
| **TOTAL DEFICIENCY OF CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0** | 0423 | - | - |
| **TOTAL LIABILITIES (0414 + 0422 - 0423)** | 0424 | 389.873.900 | 406.261.524 |

from 01.01.2015. to 30.06.2015.

# INCOME STATEMENT

(in RSD thousand)

| POSITION | ADP code | Amount | | | |
|---|---|---|---|---|---|
| | | Current year | | Previous year | |
| | | 01.04.-30.06. | 01.01.-30.06 | 01.04.-30.06. | 01.01.-30.06 |
| 1 | 2 | 3* | 4** | 5 | 6 |
| Interest income | 1001 | 4.836.904 | 9.925.789 | 5.619.073 | 11.104.666 |
| Interest expenses | 1002 | 1.394.798 | 3.022.702 | 2.089.784 | 4.209.939 |
| **Net interest profit (1001-1002)** | 1003 | 3.442.106 | 6.903.087 | 3.529.289 | 6.894.727 |
| **Net interest loss (1002-1001)** | 1004 | - | - | - | - |
| Fee and commission income | 1005 | 1.491.871 | 2.896.747 | 1.353.901 | 2.663.298 |
| Fee and commission expenses | 1006 | 263.698 | 524.674 | 222.011 | 441.970 |
| **Net fee and commission income (1005 - 1006)** | 1007 | 1.228.173 | 2.372.073 | 1.131.890 | 2.221.328 |
| **Net fee and commission expenses (1006 - 1005)** | 1008 | - | - | - | - |
| Net gains on financial assets held for trading | 1009 | 2.152 | 2.036 | 1.179 | 2.800 |
| Net loss on financial assets held for trading | 1010 | | | - | - |
| Net gains from risk protection | 1011 | - | - | - | - |
| Net loss from risk protection | 1012 | - | - | - | - |
| Net gains on financial assets that are initially recognized at fair value through profit or loss | 1013 | - | - | - | - |
| Net losses on financial assets that are initially recognized at fair value through profit or loss | 1014 | - | - | - | - |
| Net profit from sale of securities | 1015 | 21.783 | 11.856 | 8.248 | 8.248 |
| Net loss from sale of securities | 1016 | | | - | - |
| Net income from foreign exchange differences and effects of contracted foreign currency clause | 1017 | | 13.219 | - | - |
| Net foreign exchange losses and the effects of contracted foreign currency clause | 1018 | 18.538 | - | 44.216 | 75.962 |
| Net gains on investments in associates and joint ventures | 1019 | - | - | - | - |
| Net loss on investments in associates and joint ventures | 1020 | - | - | - | - |
| Other operating income | 1021 | 104.889 | 209.169 | 87.757 | 154.231 |
| Net income from reversal of impairment of financial assets and off-balance sheet credit risk items | 1022 | - | - | | - |
| Net impairment losses of financial assets and off-balance sheet credit risk items | 1023 | 1.527.063 | 2.918.607 | 815.909 | 1.409.753 |
| **NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0** | 1024 | 3.253.502 | 6.592.833 | 3.898.238 | 7.795.619 |
| **NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) < 0** | 1025 | - | - | - | - |
| Saleries, wages, and other personnel indemnities | 1026 | 1.055.360 | 2.058.986 | 1.036.817 | 2.090.603 |
| Depreciation costs | 1027 | 207.857 | 413.958 | 216.807 | 420.984 |
| Other expenses | 1028 | 1.501.907 | 3.423.579 | 1.456.743 | 2.888.899 |
| **PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0** | 1029 | 488.378 | 696.310 | 1.187.871 | 2.395.133 |
| **LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0** | 1030 | - | - | - | - |
| Tax on profit | 1031 | - | - | - | - |
| Deffered tax income for the period | 1032 | - | - | - | - |
| Deffered tax expense for the period | 1033 | - | - | - | - |
| **PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0** | 1034 | 488.378 | 696.310 | 1.187.871 | 2.395.133 |
| **LOSS FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0** | 1035 | - | - | - | - |
| NET PROFIT OF DISCONTINUED OPERATIONS | 1036 | - | - | - | - |
| NET LOSS OF DISCONTINUED OPERATIONS | 1037 | - | - | - | - |
| **NET PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0** | 1038 | 488.378 | 696.310 | 1.187.871 | 2.395.133 |
| **NET LOSS (1034 - 1035 + 1036 - 1037) < 0** | 1039 | - | - | - | - |
| Net profit which belongs to owners of parent legal entity | 1040 | - | - | - | - |
| Net profit which belongs to minority investors | 1041 | - | - | - | - |
| Net loss which belongs to owners of parent legal entity | 1042 | - | - | - | - |
| Net loss which belongs to minority investors | 1043 | - | - | - | - |
| **Earnings per share** | | | | | |
| Basic earnings per share (in RSD, rounded) | 1044 | - | - | - | - |
| Diluted earnings per share (in RSD, rounded) | 1045 | - | - | - | - |

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

from 01.01.2015. to 30.06.2015.

## REPORT ON OTHER FINANCIAL RESULT

(in RSD thousand)

| POSITION | ADP code | Amount | | | |
|---|---|---|---|---|---|
| | | Current year | | Previous year | |
| | | 01.04.-30.06. | 01.01.-30.06 | 01.04.-30.06. | 01.01.-30.06 |
| 1 | 2 | 3* | 4** | 5 | 6 |
| **PROFIT FOR THE PERIOD** | 2001 | 488.378 | 696.310 | 1.187.871 | 2.395.133 |
| **LOSS FOR THE PERIOD** | 2002 | - | - | - | - |
| Other result for the period | | - | - | - | - |
| Components of other result that cannot be reclassified to profit or loss: Increase of revaluation reserves against intangible assets and fixed assets | 2003 | - | - | - | - |
| Decrease of revaluation reserves against intangible assets and fixed assets | 2004 | - | - | 0 | 3.472 |
| Actuarial gains | 2005 | - | - | - | - |
| Actuarial losses | 2006 | - | - | - | - |
| Positive effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss | 2007 | - | - | - | - |
| Negative effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss | 2008 | - | - | - | - |
| Components of other result that can be reclassified to profit or loss: Positive effects of changes in fair value based on financial assets available for sale | 2009 | 44.986 | 279.564 | 94.862 | 512.457 |
| Unrealized losses arising from securities available for sale | 2010 | 187.031 | 83.710 | - | - |
| Gains from hedging instruments in a cash flow hedge | 2011 | - | - | - | - |
| Losses from hedging instruments in a cash flow hedge | 2012 | - | - | - | - |
| Positive cumulative differences arising from currency conversions in foreign exchange operations | 2013 | - | - | - | - |
| Negative cumulative differences arising from currency conversions in foreign exchange operations | 2014 | - | - | - | - |
| Positive effects of changes in values arising from other components of other result that can be reclassified to profit or loss | 2015 | - | - | - | - |
| Negative effects of changes in values arising from other components of other result that can be reclassified to profit or loss | 2016 | - | - | - | - |
| Tax-related profit that pertains to other result for the period | 2017 | - | - | - | - |
| Tax-related loss that pertains to other result for the period | 2018 | - | - | - | - |
| **Total positive other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) ≥ 0** | 2019 | - | **195.854** | **94.862** | **508.985** |
| **Total negative other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) < 0** | 2020 | **142.045** | - | - | - |
| **TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0** | 2021 | **346.333** | **892.164** | **1.282.733** | **2.904.118** |
| **TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) < 0** | 2022 | - | - | - | - |
| Total positive result for the period that pertains to parent entity | 2023 | - | - | - | - |
| Total positive result for the period that pertains to owners without control rights | 2024 | - | - | - | - |
| Total negative result for the period that pertains to parent entity | 2025 | - | - | - | - |
| Total negative result for the period that pertains to owners without control rights | 2026 | - | - | - | - |

Coloumn 3. for 1. 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 01.01.2015. to 30.06.2015.

(in RSD thousand)

| | POSITION | ADP code | Amount 01.01.-30.06.2015. | 01.01-30.06.2014. |
|---|---|---|---|---|
| | 1 | 2 | 3 | 4 |
| A. | **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| I. | **Cash inflows from operating activities (from 3002 to 3005)** | 3001 | 13.357.191 | 12.855.295 |
| 1. | Inflows from Interest | 3002 | 10.345.268 | 10.071.836 |
| 2. | Inflows from allowances | 3003 | 2.915.302 | 2.673.810 |
| 3. | Inflows from other operating income | 3004 | 95.528 | 108.504 |
| 4. | Inflows from dividends and participation in profit | 3005 | 1.093 | 1.145 |
| II. | **Cash outflows from operating activities (from 3007 to 3011)** | 3006 | 8.176.716 | 8.760.658 |
| 5. | Outflows from interest | 3007 | 2.649.023 | 3.413.014 |
| 6. | Outflows from allowances | 3008 | 530.068 | 443.755 |
| 7. | Outflows from gross salleries, wages and other personnel indemnities | 3009 | 1.933.917 | 1.793.655 |
| 8. | Outflows from taxes, contributions and other obligations from income | 3010 | 381.035 | 351.812 |
| 9. | Outflows from other operating expenses | 3011 | 2.682.673 | 2.758.422 |
| III. | **Net cash inflow from operating activities prior to increase or decrease in advances and deposits (3001 - 3006)** | 3012 | 5.180.475 | 4.094.637 |
| IV. | **Net cash outflow from operating activities prior to increase or decrease in advances and deposits (3006 - 3001)** | 3013 | - | - |
| V. | **Decrease in loans and increase in deposits and other liabilities (from 3015 to 3020)** | 3014 | 31.512.825 | 32.739.072 |
| 10. | Decrease in loans and advances to banks, other financial institutions, central bank and other clients | 3015 | 26.629.094 | 18.500.856 |
| 11. | Decrease of financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment | 3016 | 4.883.731 | - |
| 12. | Decrease in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging | 3017 | - | - |
| 13. | Increase in deposits and other liabilities to banks, other financial institutions, central banks and other clients | 3018 | - | 14.238.216 |
| 14. | Increase in financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading | 3019 | - | - |
| 15. | Increase in liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging | 3020 | - | - |
| VI. | **Increase in loans and decrease in deposits and other liabilities (from 3022 to 3027)** | 3021 | 17.455.202 | 14.282.625 |
| 16. | Increase in loans and advances to banks, other financial institutions, central bank and other clients | 3022 | - | - |
| 17. | Increase in financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment | 3023 | - | 14.282.625 |
| 18. | Increase in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging | 3024 | - | - |
| 19. | Decrease in deposits and other liabilities to banks, other financial institutions, central bank and other clients | 3025 | 17.455.202 | - |
| 20. | Decrease of financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading | 3026 | - | - |
| 21. | Decrease of liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging | 3027 | - | - |
| VII. | **Net cash inflow from operating activities before tax (3012 - 3013 + 3014 - 3021)** | 3028 | 19.238.098 | 22.551.084 |
| VIII. | **Net cash outflow from operating activities before tax (3013 - 3012 + 3021 - 3014)** | 3029 | - | |
| 22. | Profit tax paid | 3030 | 2.424 | 388.746 |
| 23. | Dividends paid | 3031 | 403 | 484.931 |
| IX. | **Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)** | 3032 | 19.235.271 | 21.677.407 |
| X. | **Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)** | 3033 | - | - |
| Б. | **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| I. | **Cash inflows from investing activities (од 3035 до 3039)** | 3034 | 16.397.698 | 12.715.121 |
| 1. | Inflows from long-term investment in securities | 3035 | 16.392.203 | 12.708.461 |
| 2. | Inflows from sale of investments in subsidiaries and associates and joint ventures | 3036 | - | - |
| 3. | Inflows from sale of intangible assets, property, plant and equipment | 3037 | 5.495 | 6.660 |
| 4. | Inflow of sale of investment property | 3038 | - | - |
| 5. | Other inflows from investing activities | 3039 | - | - |
| II. | **Cash outflows from investing activities (from 3041 to 3045)** | 3040 | 29.766.440 | 29.252.731 |
| 6. | Outflows from investment in long-term securities | 3041 | 29.603.790 | 28.940.829 |
| 7. | Outflows from purchase of investments in subsidiaries and associates and joint ventures | 3042 | - | - |
| 8. | Outflows from purchase of sale of intangible assets, property, plant and equipment | 3043 | 162.650 | 311.313 |
| 9. | Outflows from purchase of investment property | 3044 | - | 589 |
| 10. | Other outflows from investing activities | 3045 | - | - |
| III. | **Net cash inflow from investing activities (3034 - 3040)** | 3046 | - | - |
| IV. | **Net cash outflow from investing activities (3040 - 3034)** | 3047 | 13.368.742 | 16.537.610 |
| B. | **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| I. | **Cash inflows from financing activities (from 3049 to 3054)** | 3048 | 54.562.582 | 102.235.424 |
| 1. | Inflows from capital increase | 3049 | - | - |
| 2. | Cash inflows from subordinated obligations | 3050 | - | - |
| 3. | Cash inflows from loans received | 3051 | 54.562.582 | 102.235.424 |
| 4. | Inflows from securities | 3052 | - | - |
| 5. | Inflows from sale of own shares | 3053 | - | - |
| 6. | Other inflows from financing activities | 3054 | - | - |
| II. | **Cash outflows from financing activities (from 3056 to 3060)** | 3055 | 56.408.230 | 104.237.059 |
| 7. | Outflows from purchase of own shares | 3056 | - | - |
| 8. | Cash outflows from subordinated obligations | 3057 | - | - |
| 9. | Cash outflows from loans received | 3058 | 56.408.230 | 104.237.059 |
| 10. | Cash outflows from securities | 3059 | - | - |
| 11. | Other outflows from financing activities | 3060 | - | - |
| III. | **Net cash inflow from financing activities (3048 - 3055)** | 3061 | - | - |
| IV. | **Net cash outflow from financing activities (3055 - 3048)** | 3062 | 1.845.648 | 2.001.635 |
| Г. | **TOTAL NET CASH INFLOWS (3001 + 3014 + 3034 + 3048)** | 3063 | 115.830.296 | 160.544.912 |
| Д. | **TOTAL NET CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)** | 3064 | 111.809.415 | 157.406.750 |
| Ђ. | **NET INCREASE IN CASH (3063 - 3064)** | 3065 | 4.020.881 | 3.138.162 |
| E. | **NET DECREASE IN CASH (3064 - 3063)** | 3066 | - | - |
| Ж. | **CASH AT THE BEGINNING OF THE YEAR** | 3067 | 45.160.177 | 40.297.749 |
| З. | **PROFIT ON EXCHANGE** | 3068 | 168.298 | 164.709 |
| И. | **LOSS ON EXCHANGE** | 3069 | - | - |
| J. | **CASH AT END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)** | 3070 | 49.349.356 | 43.600.620 |

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 01.01.2015 to 30.06.2015

(in RSD thousand )

| ITEM | ADP code | Share and other capital (accounts 800,801,803) | ADP code | Own shares (account 128) | ADP code | Issue premium (account 802) | ADP code | Reserves from profit and other reserves (account group 81) | ADP code | Revaluation reserves (account group 82 credit balance) | ADP code | Revaluation reserves (account group 82 debit balance) | ADP code | Profit (account group 83) | ADP code | Loss (accounts 840,841,842) | ADP code | Total (column 2-3+4+5+6-7+8-9)≥0 | ADP code | Total (column 2-3+4+5+6-7+8-9)<0 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | 2 | | 3 | | 4 | | 5 | | 6 | | 7 | | 8 | | 9 | | 10 | | 11 |
| **Opening balance as of January 1st of preceding year** | 4001 | 17 191 466 | 4029 | | 4057 | 22 843 084 | 4085 | 16 635 440 | 4113 | 1 791 268 | 4127 | 187 011 | 4141 | 6 687 971 | 4175 | | 4209 | 64 962 218 | 4215 | |
| Correction of material misstatement and changes to accounting policies in preceding year – increase | 4002 | | 4030 | | 4058 | | 4086 | | 4114 | | 4128 | | 4142 | | 4176 | | | | | |
| Correction of material misstatement and changes to accounting policies in preceding year – decrease | 4003 | | 4031 | | 4059 | | 4087 | | 4115 | | 4129 | | 4143 | | 4177 | | | | | |
| **Adjusted opening balance as of January 1st of preceding year (number 1+2-3)** | 4004 | 17 191 466 | 4032 | | 4060 | 22 843 084 | 4088 | 16 635 440 | 4116 | 1 791 268 | 4130 | 187 011 | 4144 | 6 687 971 | 4178 | | 4210 | 64 962 218 | 4216 | |
| Total positive other result for the period | | | | | | | | | 4117 | 559 817 | 4131 | | | | | | | | | |
| Total negative other result for the period | | | | | | | | | 4118 | | 4132 | 43 115 | | | | | | | | |
| Profit for the year | | | | | | | | | | | | | 4145 | 4 785 577 | | | | | | |
| Loss for the year | | | | | | | | | | | | | | | 4179 | | | | | |
| Transfer from reserves to result due to release of reserves – increase | | | | | | | | | | | | | 4146 | | 4180 | | | | | |
| Transfer from reserves to result due to release of reserves – decrease | | | | | | | | | | | | | 4147 | | 4181 | | | | | |
| Transactions with owners, recorded directly in equity – increase | 4005 | | 4033 | | 4061 | | 4089 | | | | | | 4148 | | 4182 | | | | | |
| Transactions with owners, recorded directly in equity – decrease | 4006 | | 4034 | | 4062 | | 4090 | | | | | | 4149 | | 4183 | | | | | |
| Profit distribution – increase | 4007 | | 4035 | | 4063 | | 4091 | 4 000 000 | | | | | 4150 | | 4184 | | | | | |
| Profit distribution, and/or loss coverage – decrease | 4008 | | 4036 | | 4064 | | 4092 | | | | | | 4151 | 4 000 000 | 4185 | | | | | |
| Dividend payments | 4009 | | 4037 | | 4065 | | 4093 | | | | | | 4152 | 604 620 | 4186 | | | | | |
| Other – increase | 4010 | | 4038 | | 4066 | | 4094 | | | | | | 4153 | 27 283 | 4187 | | | | | |
| Other – decrease | 4011 | | 4039 | | 4067 | | 4095 | | | | | | 4154 | 140 356 | 4188 | | | | | |
| **Total transactions with owners (number 11-12+13-14-15+16-17) ≥ 0** | 4012 | | 4040 | | 4068 | | 4096 | 4 000 000 | | | | | 4155 | | 4189 | | | | | |
| **Total transactions with owners (number 11-12+13-14-15+16-17) < 0** | 4013 | | 4041 | | 4069 | | 4097 | | | | | | 4156 | 4 717 693 | 4190 | | | | | |
| **Balance as of December 31st of preceding year (number 4+5-6+7+8+9-10+18-19 for columns from 2,3,4,5,6,8,9), for column 7 (number 4+6-5)** | 4014 | 17 191 466 | 4042 | | 4070 | 22 843 084 | 4098 | 20 635 440 | 4119 | 2 351 085 | 4133 | 230 126 | 4157 | 6 755 855 | 4191 | | 4211 | 69 546 804 | 4217 | |
| **Opening balance as of January 1st of the current year** | 4015 | 17 191 466 | 4043 | | 4071 | 22 843 084 | 4099 | 20 635 440 | 4120 | 2 351 085 | 4134 | 230 126 | 4158 | 6 755 855 | 4192 | | 4212 | 69 546 804 | 4218 | |
| Correction of material misstatement and changes to accounting policies in preceding year – increase | 4016 | | 4044 | | 4072 | | 4100 | | 4121 | | 4135 | | 4159 | | 4193 | | | | | |
| Correction of material misstatement and changes to accounting policies in preceding year – decrease | 4017 | | 4045 | | 4073 | | 4101 | | 4122 | | 4136 | | 4160 | | 4194 | | | | | |
| **Adjusted opening balance as of January 1st of the current year (number 21+22-23)** | 4018 | 17 191 466 | 4046 | | 4074 | 22 843 084 | 4102 | 20 635 440 | 4123 | 2 351 085 | 4137 | 230 126 | 4161 | 6 755 855 | 4195 | | 4213 | 69 546 804 | 4219 | |
| Total positive other result for the period | | | | | | | | | 4124 | 273 465 | 4138 | | | | | | | | | |
| Total negative other result for the period | | | | | | | | | 4125 | | 4139 | 83 710 | | | | | | | | |
| Profit for the year | | | | | | | | | | | | | 4162 | 696 310 | | | | | | |
| Loss for the year | | | | | | | | | | | | | | | 4196 | | | | | |
| Transfer from reserves to result due to release of reserves – increase | | | | | | | | | | | | | 4163 | | 4197 | | | | | |
| Transfer from reserves to result due to release of reserves – decrease | | | | | | | | | | | | | 4164 | | 4198 | | | | | |
| Transactions with owners, recorded directly in equity – increase | 4019 | | 4047 | | 4075 | | 4103 | | | | | | 4165 | | 4199 | | | | | |
| Transactions with owners, recorded directly in equity – decrease | 4020 | | 4048 | | 4076 | | 4104 | | | | | | 4166 | | 4200 | | | | | |
| Profit distribution – increase | 4021 | | 4049 | | 4077 | | 4105 | 4 300 000 | | | | | 4167 | | 4201 | | | | | |
| Profit distribution, and/or loss coverage – decrease | 4022 | | 4050 | | 4078 | | 4106 | | | | | | 4168 | 4 300 000 | 4202 | | | | | |
| Dividend payments | 4023 | | 4051 | | 4079 | | 4107 | | | | | | 4169 | 1 962 750 | 4203 | | | | | |
| Other – increase | 4024 | | 4052 | | 4080 | | 4108 | | | | | | 4170 | 6 099 | 4204 | | | | | |
| Other – decrease | 4025 | | 4053 | | 4081 | | 4109 | | | | | | 4171 | 347 000 | 4205 | | | | | |
| **Total transactions with owners (number 31-32+33-34-35+36- 37) ≥ 0** | 4026 | | 4054 | | 4082 | | 4110 | 4 300 000 | | | | | 4172 | | 4206 | | | | | |
| **Total transactions with owners (number 31-32+33-34-35+36- 37) < 0** | 4027 | | 4055 | | 4083 | | 4111 | | | | | | 4173 | 6 603 651 | 4207 | | | | | |
| **Balance as of March 31st of the current year (number 24+25-26+27+28+29-30+38-39 for columns from 2,3,4,5,6,8,9), for the column 7 (number 24+26-25)** | 4028 | 17 191 466 | 4056 | | 4084 | 22 843 084 | 4112 | 24 935 440 | 4126 | 2 624 550 | 4140 | 313 836 | 4174 | 848 514 | 4208 | | 4214 | 68 129 218 | 4220 | |

KOMERCIJALNA BANKA
AD Beograd

# NOTES

## TO FINANCIAL STATEMENTS FOR THE SECOND QUARTER OF 2015

Belgrade, July 2015

## 1. INCORPORATION AND OPERATION OF THE BANK

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

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

1. Republic of Serbia and
2. EBRD, London

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

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

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

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

As of June 30th, 2015, the Bank is consisted of the Head Office in Belgrade located at 14, Svetog Save Street, 24 branches and 217 sub-branches.

As at June 30th, 2015, the Bank had 2,897 employees, while on December 31st, 2014 the number of employees was 2,906. Tax ID number of the Bank is 100001931.

## 2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

### 2.1. Statement of Compliance

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

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

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

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

### 2.2. Assessment Rules

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

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

### 2.3. Functional and Reporting Currency

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

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

*BALANCE SHEET*

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

In RSD thousand

| | 30.06.2015 | | 31.12.2014 | |
|---|---|---|---|---|
| ASSETS | Amount | % | Amount | % |
| Cash and cash funds held with the central bank | 68,102,145 | 17.47 | 68,547,389 | 16.87 |
| Financial assets at fair value through profit and loss, held for trading | 129,537 | 0.03 | 121,634<br>95,481,249 | 0.03 |
| Financial assets available for sale | 103,456,744 | 26.54 | 51,442 | 23.50 |
| Financial assets held to maturity | 136,675 | 0.04 | | 0.01 |
| Loans and receivables due from banks and other financial institutions | 22,313,830 | 5.72 | 34,737,605<br>185,377,035 | 8.55 |
| Loans and receivables from customers | 173,688,747 | 44.55 | 5,480,888 | 45.63 |
| Investment in subsidiaries | 5,480,888 | 1.41 | 405,774 | 1.35 |
| Intangible assets | 300,596 | 0.08 | 6,329,077 | 0.10 |
| Property, plant and equipment | 6,200,408 | 1.59 | 2,581,144 | 1.56 |
| Investment property | 2,814,408 | 0.72 | 73,835 | 0.64 |
| Current tax assets | 76,258 | 0.02 | - | 0.02 |
| Deferred tax assets | 127,530 | 0.03 | | - |
| Non-current assets held for sale and assets from discontinued operations | 65,000 | 0.02 | 84,227 | 0.02 |
| Other assets | 6,981,134 | 1.78 | 6,990,225 | 1.72 |
| **TOTAL ASSETS** | **389,873,900** | **100.00** | **406,261,524** | **100.00** |

| LIABILITIES | Amount | % | Amount | % |
|---|---|---|---|---|
| Deposits and other liabilities due to banks, other financial organizations and the central bank | 18,890,194 | 4.85 | 23,743,018 | 5.84 |
| Deposits and other liabilities due to other customers | 288,662,985 | 74.04 | 301,954,911 | 74.33 |
| Subordinated liabilities | 6,021,978 | 1.54 | 6,036,680 | 1.49 |
| Provisions | 1,781,325 | 0.46 | 1,640,595 | 0.40 |
| Deferred tax liabilities | 277,936 | 0.07 | 150,407 | 0.04 |
| Other liabilities | 6,110,264 | 1.57 | 3,189,109 | 0.78 |
| Equity | 68,129,218 | 17.47 | 69,546,804 | 17.12 |
| **TOTAL LIABILITIES** | **389,873,900** | **100.00** | **406,261,524** | **100.00** |

*INCOME STATEMENT*

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

In thousand RSD

| | 30.06.2015 | 30.06.2014 |
|---|---|---|
| INCOME | Total | Total |
| Interest income | 9,925,789 | 11,104,666 |
| Fee and commission income | 2,896,747 | 2,663,298 |
| Net gains on the financial assets held for trading | 2,036 | 2,800 |
| Net gains on financial assets available for sale | 11,856 | 8,248 |
| Net income from foreign exchange differentials and the effects of agreed currency clause | 13,219 | - |
| Other operating income | 209,169 | 154,231 |

| EXPENSES | Total | Total |
|---|---|---|
| Interest expense | 3,022,702 | 4,209,939 |
| Fee and commission expense | 524,674 | 441,970 |
| Net expense from exchange rate differentials and the effects of agreed currency clause | - | 75,962 |
| Net expense from impairment of financial assets and credit risk weighted off-balance sheet items | 2,918,607 | 1,409,753 |
| Cost of salaries, allowances and other personnel expenses | 2,058,986 | 2,090,603 |
| Depreciation cost | 413,958 | 420,984 |
| Other expenses | 3,423,579 | 2,888,899 |

| | | |
|---|---|---|
| **Result of the period (profit)** | **696,310** | **2,395,133** |

*CASH FLOW STATEMENT*

In thousand RSD

| Item | 30.06.2015 Total | 30.06.2014 Total |
|---|---|---|
| **Cash inflows from operating activities** | **13,357,191** | **12,855,295** |
| Inflow from interest | 10,345,268 | 10,071,836 |
| Inflow from fees | 2,915,302 | 2,673,810 |
| Inflow from other operating activities | 95,528 | 108,504 |
| Inflow from dividends and share in profit | 1,093 | 1,145 |
| **Cash outflows from operating activities** | **8,176,716** | **8,760,658** |
| Interest payments | 2,649,023 | 3,413,014 |
| Fee payments | 530,068 | 443,755 |
| Payments for gross salaries, allowances and other personnel expenses | 1,933,917 | 1,793,655 |
| Taxes, contributions and other duties charged to income | 381,035 | 351,812 |
| Payments for other operating expenses | 2.682.673 | 2,758,422 |
| **Net cash inflow from operating activities before increase or decrease in loans and deposits** | **5,180,475** | **4,094,637** |
| **Decrease in lending and increase in deposits and other liabilities** | **31,512,825** | **32,739,072** |
| Decrease in loans and receivables from banks, other financial organisations, the central bank and customers | 26,629,094 | 18,500,856 |
| Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments | 4,883,731 | - |
| Increase in deposits and other liabilities to banks, other financial organisations, the central bank and customers | - | 14,238,216 |
| **Increase in lending and decrease in received deposits and other liabilities** | **17,455,202** | **14,282,625** |
| Increase in loans and receivables from banks, other financial organisations, the central bank and customers | - | - |
| Increase in financial assets initially recognized at fair value through income statement, financial assets held for trading and other securities not held for investment | - | 14,282,625 |
| Decrease in deposits and other liabilities to banks, other financial organisations, central banks and customers | 17,455,202 | - |

In thousand RSD

| Item | 30.06.2015 Total | 30.06.2014 Total |
|---|---|---|
| **Net inflow of cash from operating activities before profit tax** | **19,238,098** | **22,551,084** |
| **Net outflow of cash from operating activities before profit tax** | - | - |
| Paid profit tax | 2,424 | 388,746 |
| Paid dividends | 403 | 484,931 |
| **Net inflow of cash from operating activities** | **19,235,271** | **21,677,407** |
| **Net outflow of cash from operating activities** | - | - |
| **Cash inflow from investment activities** | **16,397,698** | **12,715,121** |
| Inflow from investment securities | 16,392,203 | 12,708,461 |
| Inflow from sales of intangible assets, property, plants and equipment | 5,495 | 6,660 |
| **Cash outflow from investment activities** | **29,766,440** | **29,252,731** |
| Outflow for investing in investment securities | 29,603,790 | 28,940,829 |
| Outflow for purchase of intangible assets, property, plants and equipment | 162,650 | 311,313 |
| Purchases of investment property | - | 589 |
| **Net outflow of cash from investment activities** | **13,368,742** | **16,637,610** |
| **Cash inflow from financing activity** | **54,562,582** | **102,235,424** |
| Inflow from borrowings | 54,562,582 | 102,235,424 |
| **Cash outflow from financing activity** | **56,408,230** | **104,237,059** |
| Outflow from borrowings | 56,408,230 | 104,237,059 |
| **Net inflow of cash from financing activity** | - | - |
| **Net outflow of cash from financing activity** | **1,845,648** | **2,001,635** |
| **Total cash inflow** | **115,830,296** | **160,544,912** |
| **Total cash outflow** | **111,809,415** | **157,406,750** |
| **Net increase in cash** | **4,020,881** | **3,138,162** |
| **Net decrease in cash** | - | - |
| **Cash and cash equivalents at the start of the year** | **45,160,177** | **40,297,749** |
| Exchange rate gains | 168,298 | 164,709 |
| Exchange rate loss | - | - |
| **End of period cash and cash equivalents** | **49,349,356** | **43,600,620** |

## INCOME STATEMENT

### 3.1. Interest Income and Expenses

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

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

Net interest income in the period from January – June 2015 totalled RSD 6,903,087 thousand and is higher by RSD 8,360 thousand, or by 0.12% compared to the same quarter of the preceding year, and/or it remained at almost the same level as in the previous comparative period.

### 3.2. Fee and Commission Income and Expenses

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

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

Net fee income in the period from January – June 2015 amount to RSD 2,372,073 thousand and are higher in comparison to the same period 2014 by 6.79%, or RSD 150,745 thousand.

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

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

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

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

In the observed period of 2015 the Bank showed the net gains against financial assets held for trading in the amount of RSD 2,036 thousand (SWAP transactions, investment units of Kombank Invest and shares of issuers – companies), and against financial assets available for sale in the amount of RSD 11,856 thousand (bonds of the Republic of Serbia, old FX savings bonds and RS T-bills).

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

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

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

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

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

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

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

Net gains from exchange rate differentials for the reporting period January – June 2015 amount to RSD 13,219 thousand. The recorded net gains were mostly affected directly by the trends in RSD exchange rate against the basket of currencies (currencies EUR, USD and CHF) between the two observed reporting periods as a form of protection from risk and management of the Bank's FX position..

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

### 3.5. Other Operating Income

In the overall other income of RSD 209,169 thousand other operating revenues account for the largest share of 43.12% (in the previous year 57.57%), which mainly refer to the income from renting the real estate amounting to RSD 44,091 thousand. Other operating revenues came as a result of the compensation for mobile telephone expenses, court expenses and cost of utility services, and also as a result of income from damages paid by insurance companies. Within other income the most significant items relate to interest income from previous years generated from corporate and retail operations in total amount of RSD 102,453 thousand. Interest income from corporate clients largely relates to collection of interest from the client Vojvodina autoput ad in the amount of RSD 37,137 thousand and the client Veterinarski zavod Zemun in the amount of RSD 48,400 thousand.

Dividends received from investment in shares of other legal entities in the amount of RSD 1,534 thousand are shown as income from dividends at the moment of their collection. Income from dividends is part of other income.

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

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

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

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

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

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

Net expenses arising from indirect write-off of loans and provisions amount to RSD 2,918,607 thousand and are higher by RSD 1,508,854 thousand, or 2.1 times compared to 30.06.2014, primarily due to increase in credit risk and changes in methodology of valuation of collaterals. Direct consequence of the increase in net expenses for this item was the increase in impairment allowance and provisions due to increased credit risk of several largest clients of the Bank, the most important of which are: Rudnap, Beohemija and concern Farmakom.

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

Costs of wages, allowances and other personnel expenses amounting to RSD 2,058,986 thousand are lower by RSD 31,617 thousand, or 1.51% compared to the same period last year, as a result of the lower number of employees and reduced increased earnings on the basis of the years of service from 0.5 % to 0.4 %.

### 3.8. Depreciation Costs

Depreciation costs amounting to RSD 413,958 thousand are lower compared to the period January – June 2014 by RSD 7,026 thousand due to expiry of amortization for Bank's CORE information system in the second quarter of 2015.

### 3.9. Operating Expenses and Other Operating Expenses

Operating expenses and other operating expenses stated in the amount of RSD 3,423,579 thousand have been increased compared to the same period last year by RSD 534,680 thousand, or 18.51%, based on operating expenses (mainly due to increase in costs of deposit insurance by RSD 107,618 thousand) and increase in other expenses (largely due to correction of interest from previous years in the amount of RSD 299,880 thousand and expenses related to provisions for court proceedings amounting to RSD 178,667 thousand).

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

*Operating expenses:*

- costs of production services in the amount of RSD 1,072,214 thousand, of which the largest amounts account for: rental costs office space, equipment and advertising space in the amount of RSD 359,266 thousand, costs of managing and maintaining ATMs and POS terminals and equipment for payment cards amounting to RSD 170,538 thousand, costs of maintenance of information equipment and software in the amount of RSD 114,832 thousand, costs of advertising and marketing amounting to RSD 156,389 thousand.
- intangible costs totalling RSD 1,199,748 thousand the highest individual item being the cost of deposit insurance in the amount of RSD 721,662 thousand. The reason of sudden increase in cost of deposit insurance is the increase in average balance of deposits
- cost of materials amounting to RSD 222,495 thousand

*Other expenses:*

- correction of interest from previous years for housing loans indexed in CHF, in accordance with the decree of the Serbian Government from March 2015. The interest rate was reduced to the original level and the total difference related to correction of the overcharged amount that resulted in income of RSD 167,131 thousand was recorded as the expense for the current period.
- correction of interest from previous years arising from loans to corporate clients in the amount of RSD 132,749 thousand, for clients Beohemija RSD 100,783 thousand, Dalhia doo RSD 13,787 thousand, Interkomerc RSD 8,033 thousand and Beohemija inhem doo Zrenjanin RSD 5,786 thousand.

## BALANCE SHEET

Balance sheet total as of 30.06.2015 amounts to RSD 389,873,900 thousand, which is a decrease, in comparison to 31.12.2014, by RSD 16,387,624 thousand, or 4.03%. The decrease came mostly as a result of a decrease in loans and receivables from the Bank's customers on the assets side and a decrease in deposits on the liabilities side.

## ASSETS

In total Bank's assets, loans and deposits to customers and banks had a dominant share of 50.27% (2014: 54.18%), financial assets available for sale with a share of 26.54% (2014: 23.50%), cash and funds at the central bank with a share of 17.47% (2014: 16.87%) and investment in subsidiaries 1.41% (2014: 1.35%).

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

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

Cash and assets with the central bank as of 30.06.2015 amount to RSD 68,102,145 thousand, and account for 17.47% of Bank's total assets (16.87 % as of 31.12.2014). Relative to 31.12.2014 the item is decreased by RSD 445,244 thousand, as a result of higher net outflows arising from withdrawal of clients' deposits compared to increase in cash caused by reduction in loans.

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

Investment in securities at fair value in the amount of RSD 129,537 thousand and financial assets available for sale in the amount of RSD 103,456,744 thousand together make up a percentage of share of 26.57% of total assets (2014: 23.53%) increased from 2014 by RSD 7,983,398 thousand. Investment in financial assets available for sale accounts for almost all realized increase in the amount of RSD 7,975,495 thousand.

In the structure of financial assets available for sale as of 30.06.2015 in RSD RS bonds had the largest share (80.19%), followed by RS T-bills (18.05%). As for securities in foreign currency, they are composed of RS bonds (82.43%), while T-bills of the Republic of Serbia account for (13.69%).

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

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

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

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

A of 30.06.2015 loans and receivables from banks and other financial organizations amount to 22,313,830 with a percentage of share of 5.72% of the total assets (2014: RSD 34,737,605 thousand) and are lower by RSD 12,423,775 thousand. Decrease from 31.12.2014 came mostly from a decrease in repo transactions in the amount of RSD 7,000,000 thousand and net decrease in overnight and other loans to banks in the amount of RSD 5,423,775 thousand (decrease in overnight loans RSD 8,248,639 thousand and increase in other loans to banks in the amount of RSD 2,824,864 thousand).

Loans and receivables from customers as of 30.06.2015 amount to RSD 173,688,747 thousand with a percentage of share of 44.55% of total assets (2014: RSD 185,377,035 thousand) and have predominant share in asset structure. Total loans to customers are lower by RSD 11,688,288 thousand, mainly due to early repayment of loans by enterprises in the amount of approximately RSD 7,870,000 thousand (of which, large clients alone account for early repayment as follows: Nelt d.o.o. with the amount of RSD 1,210,000 thousand, Grain international RSD 7,716 thousand, IMLEK ad EUR 11,000 thousand , Knjaz Miloš EUR 5,713 thousand, Eliksir Zorka EUR 4,000 thousand, Soja protein EUR 3,000 thousand, Evolucija 2004 EUR 1,736 thousand, PKB EUR 1,383 thousand and CITY records EUR 271 thousand), as well as due to increase in loan impairment allowance as a result of more restrictive credit risk assessment policy and the new credit risk assessment for certain clients Beohemija, Farmakom and Rudnap whose account has been blocked since 27.02.2015.

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

### 3.13. Investment in Subsidiaries

Investments in subsidiaries are RSD 5,480,888 thousand and account for 1.41% of total assets.
Ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with related entities, as part of regular operations. These include primarily loans and deposits. Transactions with related entities have been carried out on market terms.

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

All these items account for as little as 4.25% of total assets, of which the largest part is property, plants and equipment and investment property in the amount of 1.59%, other assets 1.79% and intangible assets in the amount of 0.08%. Other assets in the amount of RSD 6,981,134 thousand decreased from 2014 by RSD 9,091 thousand mainly due to impact of a decrease in receivables for purchase and sale of currencies on FX market in foreign currency that was greater than the increase in assets acquired through collection of receivables and other categories of other assets.

Receivables from court disputes in the amount of RSD 209,430 thousand almost entirely relate to the client KMS in the amount of RSD 209,085 thousand and have been fully provisioned.

Investments in the capital of banks, foreign and local legal entities as of 30.06.2015 amount to RSD 1,259,824 thousand (gross amount, excluding impairment allowance), of which stake in the equity of foreign entities amounts to RSD 662,794 thousand and these are stakes in the companies Master and Visa International.

## LIABILITIES

In the period January – June 2015 the structure of liabilities was still dominated by deposits and other liabilities to banks and customers and the capital with a total percentage of 96.36% (2014: 97.29%) of total liabilities. Share of capital in total liabilities equals 17.47% (2014:17.12%).

Other items account for 3,64% of total liabilities, with the largest part of this item being subordinated liabilities with a percentage of 1.54%.

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

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

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

Deposits and other liabilities to customers account for the largest share in the structure of liabilities in the amount of RSD 288,662,985 thousand, thus accounting for 74.04% of total liabilities (2014: 74.33%) followed by deposits and other liabilities to banks, other financial organisations and the central bank in the amount of RSD 18,890,194 thousand with a share of 4.85% (2014: 5.84%).

When compared to 2014 the total decrease in deposits is RSD 18,144,750 thousand: transaction deposits are lower by approximately RSD 13,315,833 thousand, while all other deposits recorded a decrease in the amount of RSD 4,828,917 thousand. Net decrease in transaction deposits resulted from withdrawal of RSD deposits of clients in the amount of RSD 16,157,038 thousand, while transaction deposits in foreign currency recorded a growth in the amount of RSD 2,841,205 thousand. The structure of transaction deposits is still dominated by deposits in the local currency with share of 61.20%, whereas the remaining 38.80% relate to deposits in foreign currency.

Other deposits are dominated by foreign currency deposits with a share of 89.83%, while dinar deposits account for 10.17%. In the reporting period the continuing is the trend of increase in FX savings by EUR 45,9 million despite the net reduction in interest rates.

*Borrowings*

Borrowings, as part of the deposits and other liabilities to banks and other customers, amount to RSD 27,020,538 thousand with a percentage of share in total liabilities of 6.93% and thus decreased from 2014 in the amount of RSD 2,141,292 thousand as a result of repayment of due tranches.
In item – liabilities to foreign banks, same as last year, the borrowings from the following foreign creditors account for the largest share:

1. EFSE fund (RSD 5,668,397 thousand)
2. GGF (RSD 1,585,342 thousand)
3. FMO (RSD 2,412,084 thousand)
4. IFC (RSD 1,809,063 thousand)
5. EBRD (RSD 3,790,418 thousand)

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

1. LEDIB 1 and 2 (Loan from the Kingdom of Denmark) - RSD 28,847 thousand,
2. Italian Government – RSD 658,863 thousand,
3. European Investment Bank (EIB) – RSD 5,416,124 thousand,
4. European Agency for Reconstruction (EAR) – RSD 224,210 thousand,
5. KfW – RSD 5,427,189 thousand.

The presented long-term loans are due between 2014 and 2022.

## 3.16. Subordinated Liabilities

In accordance with the regulations of the National Bank of Serbia regarding capital requirements and implementation of Basel II standard, in 2011 the Bank strengthened its capital base by taking a subordinated loan from the IFC. The amount of subordinated loan as of June 30th, 2015 of RSD 6,021,978 thousand is dinar equivalent of EUR 50,000 thousand less accrued expenses for liabilities recorded at depreciated value with the implementation of the effective interest rate of RSD 21,093 thousand. The loan was approved by the International Finance Corporation.

## 3.17. Provisions

The Bank's provisions in the amount of RSD 1,781,325 thousand consist of provisions for: coverage of liabilities (court disputes), long-term employee salaries and provisions for losses on off-balance sheet assets, Compared to 2014, in the observed period there was an increase in provisions in the amount of RSD 140,730 thousand.
Net increase came as a result of the increase in provisions for court disputes in the amount of RSD 171,089 thousand and a decrease in provisions for losses on off-balance sheet assets in the amount of RSD 30,359 thousand. The increase came mostly from additional provisions for court disputes, specifically the court dispute with the company Inex-Interexport a.d. in bankruptcy where an increase of RSD 57,281 thousand resulted from the calculated default interest with a simultaneous increase in liabilities for default interest and exchange rate differentials in connection with the dollar amount from the legal action against the Republic of Serbia in the amount of RSD 82,931 thousand. Apart from these provisions, additional provisioning was carried out for two new cases in the amount of RSD 38,454 thousand. In the observed period, the Bank reduced provisions for court disputes in the amount of RSD 7,578 thousand on the basis of payment as per lost court case for the client --"Elektroveze poslovne usluge" in bankruptcy.

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

## 3.18. Other liabilities

Compared to 2014, other liabilities amount to RSD 6,110,264 thousand and are higher by RSD 2,921,155 thousand. Increase in other liabilities mainly relate to liabilities from profit resulted from booking of profit distribution from previous year as per Decision of the General Meeting of Bank's Shareholders dated 04.06.2015.
Percentage of share of other liabilities in total assets is 1.57% (2014: 0.78%).

## 3.19. Capital

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

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

As at 30.06.2015, the Bank's capital consists of:

| In RSD thousand | 2015 | 2014 |
|---|---|---|
| Share capital | 17,191,466 | 17,191,466 |
| Issue premium | 22,843,084 | 22,843,084 |
| Capital | 40,034,550 | 40,034,550 |
| | | |
| Reserves from the profit | 24,935,440 | 20,635,440 |
| Revaluation reserves | 2,516,030 | 2,242,565 |
| Unrealized losses based on securities available for sale | (313,836) | (230,126) |
| Actuarial gain | 108,520 | 108,520 |
| Reserves | 27,246,154 | 22,756,399 |
| | | |
| Accumulated profit | 848,514 | 6,755,855 |
| | | |
| **Balance as at date** | 68,129,218 | 69,546,804 |

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

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

Based on the Decision of the Securities Commission of 17 March 2011, the Bank substituted the shares of the nominal value of 10,000.00 Dinars with the shares of a nominal value of 1,000.00 Dinars.

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

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

The capital adequacy ratio of the Bank as at June 30th, 2015, calculated on the basis of the financial statements equals 20.79% having implemented the applicable decisions of the National Bank of Serbia for 2015.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 30.06.2015 the pecuniary part of capital is above the prescribed level.

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

The structure of the share capital – ordinary shares as at June 30th, 2015 is as follows:

| Shareholder name | % of share |
|---|---|
| Republic of Serbia | 41.74 |
| EBRD, LONDON | 24.43 |
| IFC CAPITALIZATION FUND LP | 10.15 |
| DEG-DEUTSHE INVESTITIONS | 4.60 |
| SWEDFUND INTERNATIONAL | 2.30 |
| Jugobanka AD Beograd in bankruptcy | 1.91 |
| EAST CAPITAL (lux) BALKAN FUND | 1.46 |
| INVEJ DOO, Beograd | 1.37 |
| Evropa osiguranje AD Beograd in bankruptcy | 1.06 |
| Dunav osiguranje | 1.02 |
| UNICREDIT BANK Serbia – custody account 2 | 0.75 |
| UNICREDIT BANK Serbia a.d. | 0.75 |
| STANKOM CO.DOO BEOGRAD | 0.70 |
| EAST CAPITAL (lux) EASTERN E | 0.53 |
| Other | 7.23 |
| | 100.00 |

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

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

## 4. RELATIONS WITH SUBSIDIARIES

### 4. A. Balance as of 30.06.2015

**RECEIVABLES** In thousand RSD

| Subsidiary | Loans and advances | Interests and fees | Other assets | Impairments | Net BS exposure | Off-balance | Total |
|---|---|---|---|---|---|---|---|
| 1. Kom. bank AD Budva | 6,467 | 868 | - | - | 7,335 | - | 7,335 |
| 2. Kom. Bank AD Banja Luka | 603,021 | - | 3,210 | - | 606,231 | - | 606,231 |
| 3. Kombank INVEST | - | 90 | - | - | 90 | 200 | 290 |
| **TOTAL:** | **609,488** | **958** | **3,210** | **-** | **613,656** | **200** | **613,856** |

**LIABILITIES**

In thousand RSD

| Subsidiary | Deposits and loans | Interests and fees | Other liabilities | Total |
|---|---|---|---|---|
| 1. Kom. bank AD Budva | 175,334 | - | 1,684 | 177,018 |
| 2. Kom. bank AD Banja Luka | 60,169 | - | - | 60,169 |
| 3. Kombank INVEST | 103 | - | - | 103 |
| **TOTAL:** | **235,606** | **-** | **1,684** | **237,290** |

**INCOME AND EXPENSES for period 01.01 – 30.06.2015**

In thousand RSD

| Subsidiary | Interest income | Fees and commission income | Interest expenses | Fees and commission expenses | Net income / expenses |
|---|---|---|---|---|---|
| 1. Kom. bank AD Budva | 53 | 1,011 | - | (956) | 108 |
| 2. Kom. bank AD Banja Luka | 4,817 | 1,335 | - | (502) | 5,650 |
| 3. Kombank INVEST | - | 297 | (9) | - | 288 |
| **TOTAL:** | **4,870** | **2,643** | **(9)** | **(1,458)** | **6,046** |

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange loss of RSD 7,961 thousand.

### 4. B. Balance as at 31.12.2014

**RECEIVABLES**

In thousand RSD

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

**LIABILITIES**

In thousand RSD

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

**INCOME AND EXPENSES for period 01.01- 30.06.2014**

In thousand RSD

| Subsidiary | Interest income | Fees and commission income | Interest expenses | Fees and commission expenses | Net income / expenses |
|---|---|---|---|---|---|
| 1. Kom. bank AD Budva | 9,215 | 763 | - | (331) | 9,647 |
| 2. Kom. bank AD Banja Luka | 5,109 | 559 | - | (281) | 5,387 |
| 3. Kombank INVEST | - | 24 | (15) | - | 9 |
| **TOTAL:** | **14,324** | **1,346** | **(15)** | **(612)** | **15,043** |

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange gains in the amount of RSD 5,018 thousand.

## 5. RISK MANAGEMENT

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

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

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

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

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

**Risk Management System**

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

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

Risk Management Strategy sets out:

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

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

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

Policies for managing certain risk types define the following:

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

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

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

**Competencies**

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

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

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

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

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

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

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

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

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

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

**Risk Management Process**

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

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

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

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

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

**Risk Types**

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

## 5.1. Credit Risk

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

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

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

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

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

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

**Credit Risk Management**

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

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

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

The basic principles of credit risk management are as follows:

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

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

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

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

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

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

Basic credit risk alleviating techniques are:

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

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

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

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

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

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

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

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

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

*Downgrade Risk*

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

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

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

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

*Risk of Change in Value of Assets*

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

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

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

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

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

*Individual Assessment*

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

*Group Assessment*

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

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

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

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

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

### 5.1.1. Maximum Credit Risk Exposure

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

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

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Gross | Net | Gross | Net |
| **I. Assets** | **398,150,963** | **370,819,403** | **411,491,955** | **387,248,783** |
| Cash and cash funds held with the central bank | 68,102,145 | 68,102,145 | 68,547,389 | 68,547,389 |
| Loans and receivables due from banks and other financial institutions | 22,704,288 | 22,313,830 | 35,106,194 | 34,737,605 |
| Loans and receivables due from customers | 199,886,470 | 173,688,747 | 208,462,012 | 185,377,035 |
| Financial assets | 103,830,114 | 103,722,956 | 95,774,547 | 95,654,325 |
| Other assets | 3,627,947 | 2,991,725 | 3,601,813 | 2,932,429 |
| **II. Off-balance sheet items** | **27,080,004** | **26,541,940** | **30,165,789** | **29,597,365** |
| Payment guarantees | 4,756,827 | 4,600,713 | 4,767,131 | 4,626,118 |
| Performance bonds | 6,729,471 | 6,631,398 | 7,883,510 | 7,734,385 |
| Irrevocable commitments | 15,047,002 | 15,047,002 | 16,715,960 | 16,715,960 |
| Other items | 546,705 | 262,827 | 799,188 | 520,902 |
| **Total (I+II)** | **425,230,968** | **397,361,343** | **441,657,744** | **416,846,148** |

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*

**June 30, 2015**

| | Housing loans | Cash loans | Agricultural loans | Other loans | Micro business | Total retail | Corporate customers | Total | Due from Banks |
|---|---|---|---|---|---|---|---|---|---|
| Loans not matured and not provided for | - | - | - | - | - | - | 2,228,866 | 2,228,866 | 22,306,495 |
| Loans matured and not provided for | - | - | - | - | - | - | 1,174,274 | 1,174,274 | 7,335 |
| Group-level impaired | 37,381,981 | 15,991,565 | 5,337,185 | 7,260,213 | 5,835,679 | 71,806,623 | 88,943,720 | 160,750,343 | 390,457 |
| Individually impaired | 930,575 | - | 102,663 | - | 1,008,184 | 2,041,422 | 33,691,566 | 35,732,988 | - |
| **Total** | **38,312,556** | **15,991,565** | **5,439,848** | **7,260,213** | **6,843,862** | **73,848,044** | **126,038,426** | **199,886,470** | **22,704,288** |
| **Impairment allowance** | **637,802** | **940,606** | **420,610** | **713,228** | **1,076,337** | **3,788,583** | **22,409,139** | **26,197,723** | **390,457** |
| Group-level impairment allowance | 420,539 | 940,606 | 393,445 | 713,228 | 934,100 | 3,401,919 | 9,745,133 | 13,147,052 | 390,457 |
| Individual impairment allowance | 217,263 | - | 27,165 | - | 142,237 | 386,665 | 12,664,006 | 13,050,671 | - |
| **Net carrying value** | **37,674,753** | **15,050,959** | **5,019,238** | **6,546,985** | **5,767,525** | **70,059,461** | **103,629,286** | **173,688,747** | **22,313,830** |

**December 31, 2014**

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

*Impaired Loans and Receivables*

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

*Receivables Matured but not Impaired*

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

*Receivables not Matured and not Impaired*

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

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

| | Housing loans | Cash loans | Agricultural loans | Other loans | Micro business | Total retail | Corporate customers | Total | June 30, 2015<br>Due from Banks |
|---|---|---|---|---|---|---|---|---|---|
| Low (IR 1, 2) | - | - | - | - | - | - | 1,693,687 | 1,693,687 | 22,306,495 |
| Medium (IR 3) | - | - | - | - | - | - | - | - | - |
| High (IR 4,5) | - | - | - | - | - | - | 535,179 | 535,179 | - |
| **Total** | **-** | **-** | **-** | **-** | **-** | **-** | **2,228,866** | **2,228,866** | **22,306,495** |

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

| | Housing loans | Cash loans | Agricultural loans | Other loans | Micro business | Total retail | Corporate customers | Total | December 31, 2014<br>Due from Banks |
|---|---|---|---|---|---|---|---|---|---|
| Low (IR 1, 2) | - | - | - | - | - | - | 2,313,323 | 2,313,323 | 27,510,292 |
| Medium (IR 3) | - | - | - | - | - | - | - | - | 22,935 |
| High (IR 4,5) | - | - | - | - | - | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** | **-** | **-** | **2,313,323** | **2,313,323** | **27,533,227** |

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

| | Housing loans | Cash loans | Agricultural loans | Other loans | Micro business | Total retail | Corporate customers | Total | June 30, 2015<br>Due from Banks |
|---|---|---|---|---|---|---|---|---|---|
| Up to 30 days past due | - | - | - | - | - | - | 973,151 | 973,151 | 7,335 |
| 31 - 90 days past due | - | - | - | - | - | - | - | - | - |
| Over 90 days past due | | | | | | | 201,123 | 201,123 | - |
| **Total** | **-** | **-** | **-** | **-** | **-** | **-** | 1,174,274 | 1,174,274 | 7,335 |

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

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

### 5.1.2. Loans with Altered Initially Agreed Terms

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

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

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

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

### 5.1.3. Concentration Risk

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

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

### 5.1.4. Credit Risk Hedges (Collaterals)

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

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

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

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

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

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

## 5.2. Liquidity Risk

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

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

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

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

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

The Bank's operations are reconciled daily with legally prescribed liquidity ratio and rigid/cash liquidity ratio. The legally prescribed minimum and maximum values for these ratios are defined for one working day, three consecutive working days and average for all working days within a month. During the third quartet 2014, the Bank's liquidity and rigid liquidity ratios were significantly in excess of the prescribed limits.

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

**Compliance with liquidity ratio limits externally prescribed:**

| | Liquidity Ratio | | Rigid/Cash Liquidity Ratio | |
|---|---|---|---|---|
| | 30.06.2015. | 31.12.2014. | 30.06.2015. | 31.12.2014. |
| | 3.19 | 2.84 | 2.86 | 2.52 |
| Average for the period | 3.27 | 3.29 | 2.94 | 2.88 |
| Maximum for the period | 3.89 | 4.40 | 3.51 | 4.09 |
| Minimum for the period | 2.93 | 1.7 | 2.67 | 1.51 |

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 | 30.06.2015. | 31.12.2014. |
|---|---|---|---|
| | Max (10%) | 10% | 11% |
| Cumulative GAP up to 3 | Max (20%) | 10% | 12% |

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

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

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

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

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

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

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

## 5.3. Market Risk

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

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

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

### 5.3.1. Interest Rate Risk

Interest rate risk represents the probability of negative effects on the Bank's financial result and equity through items of the banking general ledger due to adverse interest rate fluctuations.

The exposure to this risk depends on the relation between the interest rate sensitive assets and liabilities.

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

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

| | Limits | 30.06.2015. | 31.12.2014. |
|---|---|---|---|
| Relative GAP | Max 15% | 2.04% | 0.69% |
| Mismatch ratio | 0.75 – 1.25 | 1.03 | 1.01 |

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

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

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

| | 30.06.2015. | 31.12.2014. |
|---|---|---|
| As at | 9.83% | 8.50% |
| Average for the period | 10.64% | 8.06% |
| Maximum for the period | 9.83% | 10.86% |
| Minimum for the period | 11.16% | 4.82% |
| Limit | 20% | 20% |

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

### 5.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

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

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

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

| | 30.06.2015. | 31.12.2014. |
|---|---|---|
| Total currency risk balance | 2,258,050 | 938,820 |
| Currency risk ratio | 6.17% | 2.90% |
| Legally-defined limit | 20% | 20% |

## 5.4. Operational Risk

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

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

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

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

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

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

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

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

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

## 5.5. The Bank's Investment Risks

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

## 5.6. Exposure Risk

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

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

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

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

## 5.7. Country Risk

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

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

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

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

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

## 5.8. Capital Management

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

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

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

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

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

**Capital adequacy ratio**

| | 30.06.2015. | 31.12.2014. |
|---|---|---|
| Core capital | 37.309.780 | 33.286.532 |
| Supplementary capital | 4,819,324 | 4,593,961 |
| Deductible items | (5,555,355) | (5,555,355) |
| **Capital** | **36.573.749** | **32.325.138** |
| | | |
| Credit risk-weighted assets | 152,967,015 | 162,919,928 |
| Operational risk exposure | 20,679,815 | 19,093,050 |
| Foreign currency risk exposure | 2,258,152 | 938,917 |
| **Capital adequacy ratio (minimum 12%)** | **20.79%** | **17.67%** |

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

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

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

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

## 6. EVENTS AFTER THE BALANCE SHEET

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

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

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

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

D) On 27.07.2015 the Bank received a decision of the Appellate Court on the legal cause of the plaintiff Interexport Bankruptcy Estate from Belgrade. The decision places an obligation on Komercijalna banka to pay to the plaintiff, with reference to the arrangement with the National Bank of Cuba, an amount of CAD 2,995,475.00 with accrued interest.

## 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 June 30th, 2015 and December 31st, 2014 for certain main currencies are as follows:

| Currencies | Official NBS rate | |
|---|---|---|
| | 2015 | 2014 |
| USD | 107.7304 | 99.4641 |
| EUR | 120.6042 | 120.9583 |
| CHF | 115.7541 | 100.5472 |

In Belgrade,
On 10.08.2015

Persons responsible for drafting the financial statements

# KOMERCIJALNA BANKA AD BEOGRAD

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## STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2015 to 30/06/2015 present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the IAS and IFRS, as published by December 31, 2013, which were translated and published in the Official Gazette, in March 2014, pursuant to the decision by the Finance Minister.

Persons responsible for the preparation of financial statements

| | |
|---|---|
| Snežana Pejčić<br>Director of the<br>Accounting Division | Savo Petrović<br>Executive Director for<br>Finance and Accounting |