KOMERCIJALNA BANKA AD BEOGRAD

REPORT

ON THE BANK'S OPERATION IN THE FIRST THREE QUARTERS OF 2012

01.11.2012

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1. OVERVIEW OF KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 31.12.2011 TO 30.09.2012

1.1. Bank's Performance Indicators

(IN RSD 000)

ITEM	30.09.12	31.08.12	31.07.12	30.06.12..	31.03.12.	31.12.11.
BALANCE SHEET ASSETS	**307.791.772**	**317.003.551**	**309.979.273**	**302.669.760**	**288.778.797**	**275.488.718**
Increase (as %)	*11,73%*	*15,07%*	*12,52%*	*9,87%*	*4,82%*	*7,7%*
LOANS AND DEPOSITS TO CUSTOMERS	**177.808.973**	**180.773.305**	**182.163.148**	**178.256.043**	**166.847.320**	**155.719.207**
Increase (as %)	*14,19%*	*16,09%*	*16,98%*	*14,47%*	*7,15%*	*3,4%*
Share of NPL (as %)	*10,49%*	*10,77%*	*10,67%*	*11,04%*	*10,66%*	*10,7%*
Retail loans and deposits*	56.737.043	57.704.825	57.152.109	54.129.216	50.898.047	48.555.491
Corporate loans and deposits	121.071.930	123.068.480	125.011.039	124.126.827	115.949.274	107.163.716
CALLABLE DEPOSITS AND LOANS (excl. FX rr)	**-**	**-**	**-**	**-**	**11.000.000**	**11.500.000**
TOTAL REQUIRED RESERVE	**58.364.760**	**59.383.001**	**59.333.310**	**60.266.666**	**55.928.880**	52.753.142
DEPOSITS FROM CUSTOMERS	**230.891.811**	**235.872.723**	**234.311.322**	**226.090.169**	**217.173.310**	**206.123.280**
Increase (as %)	*12,02%*	*14,43%*	*13,68%*	*9,69%*	*5,36%*	*3,5%*
Retail deposits	162.422.952	166.382.859	164.391.245	161.360.068	153.340.688	143.061.647
Corporate deposits	68.468.859	69.489.863	69.920.077	64.730.102	63.832.623	63.061.633
OPERATING PROFIT	**3.332.436**	**2.996.801**	**2.594.532**	**2.274.424**	**1.149.533**	**3.952.066**
*Increase/decrease (as %***)*	*12,17%*	*14,99%*	*12,38%*	*13,33%*	*28,42%*	*41,6%*
PROFITABILITY INDICATORS:						
ROA – profit** / average BS assets	**1,49%**	**1,51%**	**1,51%**	**1,55%**	**1,61%**	**1,53%**
ROE – profit** / average total capital	**9,67%**	**9,82%**	**9,75%**	**10,01%**	**10,21%**	**9,21%**
ROE – profit** / average share capital	**15,61%**	**15,79%**	**15,63%**	**15,98%**	**16,16%**	**13,89%**
INTEREST GAINS	**7.738.231**	**6.716.695**	**5.846.885**	**5.060.711**	**2.528.418**	**9.853.368**
*Increase (as %***)*	*7,60%*	*6,53%*	*7,14%*	*9,77%*	*18,77%*	*32,5%*
FEE AND COMMISSION GAINS	**3.315.893**	**2.922.167**	**2.539.170**	**2.126.915**	**1.000.793**	**4.423.399**
*Increase/decrease (as %***)*	*2,43%*	*2,20%*	*2,32%*	*0,71%*	*-0,90%*	*13,6%*
NUMBER OF EMPLOYEES	**3.015**	**3.012**	**3.012**	**3.005**	**3.023**	**3.022**
Increase/decrease (as %)	-0,23%	-0,33%	-0,33%	-0,56%	0,03%	*-2,5%*
Assets per employee in 000 RSD	102.087	105.247	102.915	100.722	95.527	91.161
Assets per employee in 000 EUR	887	889	874	870	858	871
OPERATING EXPENSES	**7.108.536**	**6.284.319**	**5.478.294**	**4.665.388**	**2.345.543**	**8.995.578**
*Increase (as %***)*	*10,91%*	*10,77%*	*10,85%*	*11,76%*	*13,13%*	*6,30%*
CIR = OPEX / net interest and fees	**64,3%**	**65,2%**	**65,3%**	**64,91%**	**66,50%**	**63,0%**
CAPITAL ADEQUACY	**16,69%**	**-**	**-**	**15,50%**	**16,11%**	**17,25%**
CAPITAL ADEQUACY RATIO	**1,65%**	**-**	**-**	**0,42%**	**0,92%**	**1,68%**
LIQUIDITY INDICATOR	**3,03**	**-**	**-**	**2,76**	**3,14**	**2,91**
OPERATING CASH FLOW (IN 000 RSD)	**5.278.279**	**4.470.086**	**3.658.239**	**2.210.258**	**1.269.762**	**6.136.179**

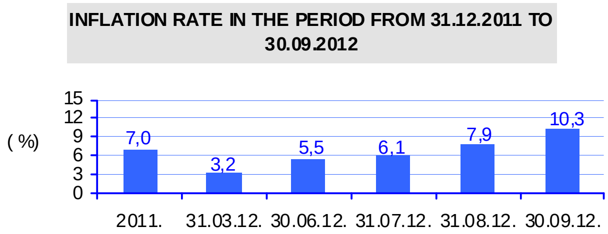
* *Retail loans and deposits include loans to micro-economic entities,* entrepreneurs – active entrepreneurs registered at the Business Registers' Agency regardless of their annual income, turnover or the level of exposure, and micro-economic entities – active companies registered at the Business Registers' Agency of the Republic of Serbia and other economic entities duly registered at the competent body, privately owned and having total annual revenue in the amount of 1,000,000.00 EUR or less, according to the latest official financial statement, calculated at NBS middle exchange rate on the day the financial statement is prepared.

***Profit before tax,*

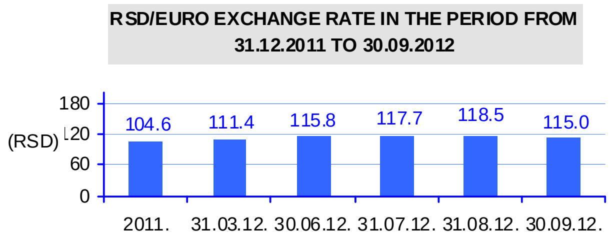
**** as % in comparison to the same period previous year.*

2. MACROECONOMIC OPERATING CONDITIONS IN THE PERIOD FROM 31.12.11 TO 30.09.2012

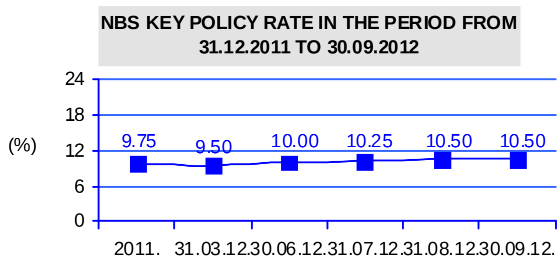
Year-on-year inflation rate (rise in consumer prices) recorded a rise in the first nine months of 2012. Year-on-year inflation in September (10.3%) greatly exceeds the upper limit of allowed departure from the projected value for this month, set in the NBS Memorandum on establishing the targeted inflation rate (6.0%).



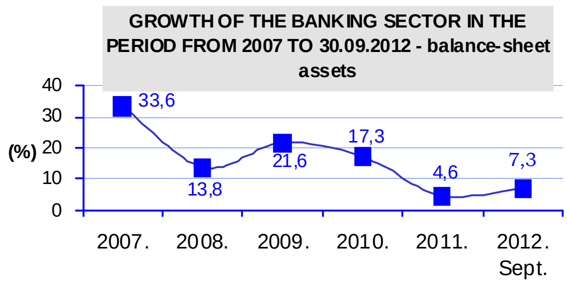
In the first three quarters this year, despite a significant intervention by NBS, which sold euros in the interbank FX market (1,288.8 million €), RSD depreciation that started towards the end of last year continued. The Dinar continuously lost its value until the end of August (13.2%). In September the Dinar appreciated, bringing the rate of RSD/EUR depreciation from the beginning of the year to the end of September 2012 to 9.9 %.



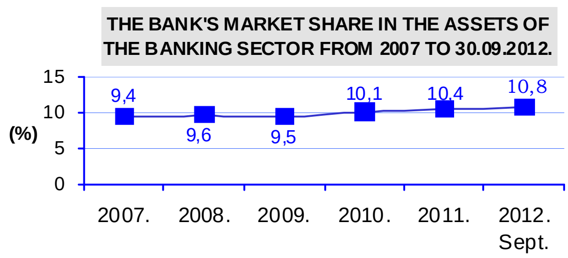
For the purpose of mitigating the inflationary pressure, which was especially pronounced in the second and third quarter, the NBS raised its key-policy rate by 1.0 percentage point in the period June-August this year. Apart from mitigating the inflationary expectations, the set rate (10.5%) should contribute to the overall macroeconomic stability. In September, the NBS key policy rate was raised to 10.50.



The banking sector in the Republic of Serbia recorded a significantly lower growth in the first nine months of 2012 (7,3%) compared to the five-year average from the previous years (18.2%).



In the first nine months of 2012th,the Bank recorded a slight increase in its share of total balance-sheet assets of the banking sector.
During this period, the Bank's market share in banking sector assets increased by 1.4 percentage points.



3. BANK'S KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 31.12.2011 TO 30.09.2012

(IN 000 RSD)

ITEM	30.09.12.	31.08.12.	31.07.12.	30.06.12..	31.03.12.	31.12.11.
BALANCE SHEET ASSETS	**307.791.772**	**317.003.551**	**309.979.273**	**302.669.760**	**288.778.797**	**275.488.718**
Increase (as %)	*11,73%*	*15,07%*	*12,52%*	*9,87%*	*4,82%*	*7,7%*
LOANS AND DEPOSITS TO CUSTOMERS	**177.808.973**	**180.773.305**	**182.163.148**	**178.256.043**	**166.847.320**	**155.719.207**
Increase (as %)	*14,19%*	*16,09%*	*16,98%*	*14,47%*	*7,15%*	*3,4%*
NPL share (as %)	*10,49%*	*10,77%*	*10,67%*	*11,04%*	*10,66%*	*10,7%*
Retail loans and deposits*	56.737.043	57.704.825	57.152.109	54.129.216	50.898.047	48.555.491
Corporate loans and deposits	121.071.930	123.068.480	125.011.039	124.126.827	115.949.274	107.163.716
CALLABLE DEPOSITS AND LOANS (excl. FX r.r.)	**-**	**-**	**-**	**-**	**11.000.000**	**11.500.000**
TOTAL REQUIRED RESERVE	**58.364.760**	**59.383.001**	**59.333.310**	**60.266.666**	**55.928.880**	**52.753.142**
DEPOSITS FROM CUSTOMERS	**230.891.811**	**235.872.723**	**234.311.322**	**226.090.169**	**217.173.310**	**206.123.280**
Increase (as %)	*12,02%*	*14,43%*	*13,68%*	*9,69%*	*5,36%*	*3,5%*
Retail deposits	162.422.952	166.382.859	164.391.245	161.360.068	153.340.688	143.061.647
Corporate deposits	68.468.859	69.489.863	69.920.077	64.730.102	63.832.623	63.061.633

As at 30.09.2012 balance-sheet assets of the Bank stood at RSD 307,791.7 million and had risen by RSD 32,303.1 million or 11.7% compared to the end of the previous year.

Off-balance sheet assets grew by 5.1% in 2012 and at the end of September 2012 stood at RSD 192,937.3 million.

In the first nine months 2012 the Bank recorded a rise in loans to customers in the amount of RSD 22,089.8 million or 14.2%, and maintained a relatively low NPL level in total loans (30.09.2012, 10.5%) and also recorded a rise in deposits from customers of 12.0%, which gives rise to expectations of an increased share of the Ban in the banking sector.

ITEM	30.09.12	31.08.12.	31.07.12.	30.06.12.	31.03.12.	31.12.11.
NUMBER OF EMPLOYEES	**3.015**	**3.012**	**3.012**	**3.005**	**3.023**	**3.022**
Assets per employee in 000 RSD	102.087	105.247	102.915	100.722	95.527	91.161
Assets per employee in 000 EUR	887	889	874	870	858	871

4. BALANCE SHEET AS AT 30.09.2012

4.1. Bank's Assets as at 30.09.2012

(IN 000 RSD)

No.	ITEM	30.09.2012.	31.12.2011.	INDEXES	% OF SHARE AS AT 30.09.2012
1	2	3	4	5=(3:4)*100	6
	ASSETS				
1.	Cash and cash equivalents	32.084.250	17.228.970	186,22	10,42
2.	Callable deposits and loans	38.655.778	55.260.711	69,95	12,56
3.	Interest, fee and sale receivables	1.364.435	1.187.573	114,89	0,44
4.	Loans and deposits to customers	177.808.973	155.719.207	114,19	57,77
5.	Securities (other than own)	36.357.792	25.637.972	141,81	11,81
6.	Equity holdings	5.888.989	5.823.583	101,12	1,91
7.	Other investments	3.381.141	2.187.533	154,56	1,10
8.	Intangible investments	563.668	555.415	101,49	0,18
9.	Fixed assets and investment property	7.401.326	7.530.271	98,29	2,40
10.	Non-current assets intended for sale	101.040	101.040	100	0,03
11.	Deferred tax assets	29.870	-	-	0,01
12.	Other assets	4.154.510	4.256.444	97,61	1,35
	TOTAL ASSETS (from 1 to 12)	**307.791.772**	**275.488.718**	**111,73**	**100,00**

The Bank's balance-sheet assets at the end of the first nine months of 2012 increased by RSD 32,303.1 million or 11.7%. Loans to customers increased by RSD 22,089.8 million or 14.2%. As at 30.09.2012 total lending to customers amounted to RSD 177,809.0 million, accounting for 57.8% of total balance-sheet assets.

During the first nine months of 2012 cash and cash equivalents recorded a rise of 86.2% due to increased amount of funds in drawing account (higher allocation of the RSD portion of FX required reserve).

Apart from loans and deposits to customers, securities recorded a significant rise in the reporting period of the current year – a rise in the amount of RSD 10,719.8 million or 41.8%, primarily investment into RS risk-free securities.
Callable deposits and loans recorded a decrease in the amount of RSD 16,604.9 million or 30.0%, which came mostly as a result of withdrawal of funds from NBS repo investments and increased share of the RSD portion of FX required reserves.

4.2. Bank's Liabilities as at 30.09.2012

(IN 000 RSD)

No.	ITEM	30.09.2012.	31.12.2011.	INDEXES	% OF SHARE AS AT 30.09.2012
1	2	3	4	5= (3:4)*100	6
I	**LIABILITIES**				
1.	Transaction deposits	32.949.793	31.456.575	104,75	10,71
2.	Other deposits	197.942.017	174.666.705	113,33	64,31
3.	Borrowings	387.804	1.603.761	24,18	0,13
4.	Securities related liabilities	-	-	-	0,00
5.	Interest and fee liabilities	145.474	205.079	70,94	0,05
6.	Provisions	2.312.621	2.135.436	108,30	0,75
7.	Tax liabilities	54.510	39.737	137,18	0,02
8.	Liabilities from profit	88.040	172.197	51,13	0,03
9.	Liabilities – for discontinued assets	-	-	-	0,00
10.	Deferred tax liabilities	46.906	17.036	275,33	0,02
11.	Other liabilities	26.540.227	20.916.626	126,89	8,62
12	**TOTAL LIABILITIES (from 1 to 11)**	**260.467.392**	**231.213.152**	**112,65**	**84,62**
	CAPITAL				0,00
13.	Share capital and issue premium	28.462.553	28.462.553	100,00	9,25
14.	Reserves from profit	14.785.440	11.635.440	127,07	4,80
15.	Revaluation reserves	771.588	689.620	111,89	0,25
16.	Unrealized losses based on securities available for sale	-81.266	-63.940	127,10	-0,03
17.	Profit	3.386.065	3.551.893	95,33	1,10
18	**TOTAL CAPITAL (from 13 to 17)**	**47.324.380**	**44.275.566**	**106,89**	**15,38**
19	**TOTAL LIABILITIES (12+18)**	**307.791.772**	**275.488.718**	**111,73**	**100**
II	**COMMISSION OPERATIONS AND OFF-BALANCE SHEET ITEMS**	**192.937.251**	**183.524.897**	**105,13**	

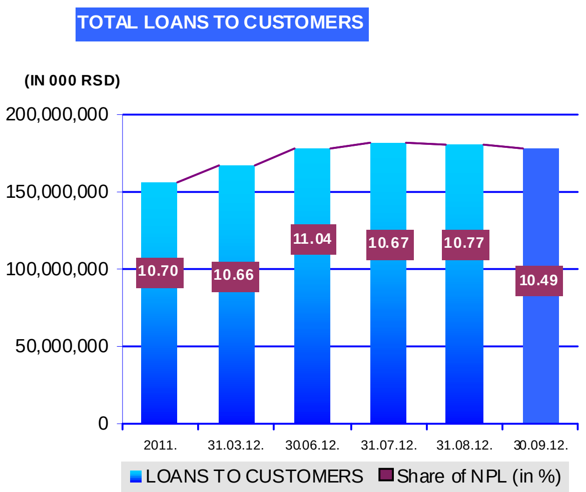
At the end of the first nine months of 2012 total liabilities stood at RSD 260,467.4 million and account for 84.6% of total liabilities (31.12.2011: 83.9%). Concurrently, total capital accounts for 15.4% of total liabilities (31.12.2011: 16.1%) with RSD 47,324.4 million.

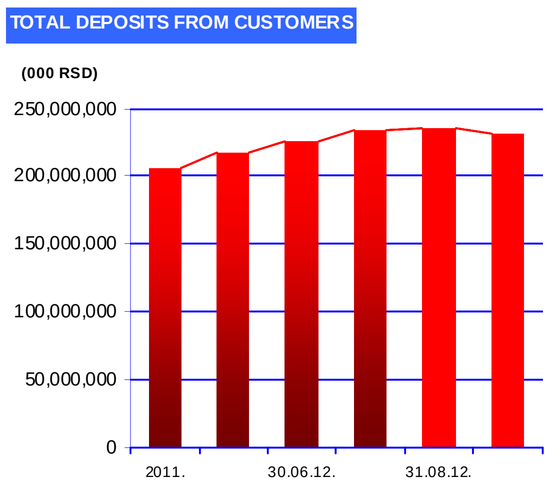
Total liabilities rose compared to the end of the previous year by RSD 29,254.2 million or 12.6%, while total capital increased by RSD 3,048.8 million or 7.0%.

Apart from other deposits, which rose in the reporting period by RSD 23,275.3 million or 13.3%, other liabilities also recorded a substantial increase compared to the end of the previous year (RSD 5,623.6 million or 26.9%) resulting in RSD 26,540.2 million at the end of September 2012.

Liabilities in foreign currency account for the largest share of other liabilities – credit lines (RSD 12,648.5 million) and subordinated loan (RSD 5,751.6 million) drawn down at the end of the previous year with the aim of increasing regulatory capital. Deposits from customers (transaction and other deposits) amount to RSD 230,891.8 million and account for 75.0% of total balance-sheet liabilities, having risen from the start of the year by RSD 24,768.5 million or 12.0%.

4.3. Loans to Customers and Deposits from Customers as at 30.09.2012





The most important asset category, loans and deposits to customers, recorded an increase in absolute terms of RSD 22,089.8 million (14.2%), and an increase of share in total assets from 56.5% (30.06.12) to 57.8%. Loan growth rate is higher than the rate of RSD depreciation, which points to the fact that in the first nine months this year the Bank achieved a real increase in loans and deposits to customers.

At the end of September the Bank's total deposits stand at RSD 230,891.8 million and account for 75.0% of the Bank's total liabilities (December 2011: 74.8%). Compared to the end of the previous year total Bank's deposits rose by RSD 24,768.5 million (12%), of which other deposits increased by RSD 23,275.3 million or 13.3%, whereas transaction deposits increased by RSD 1,493.2 million or 4.8%. Growth of other deposits came partly (about 65%) as a result of RSD depreciation which resulted in a growth in real terms of approx. 35%.

Increase in other deposits in the first nine months of 2012 was due primarily to the increase in retail FX savings (RSD 19,242.3 million).

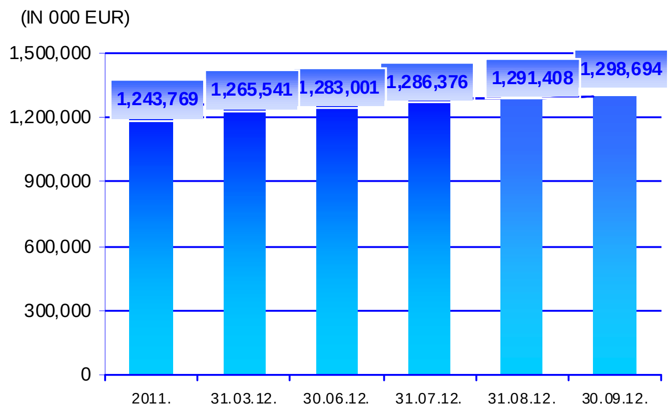
(U 000 RSD)

No.	ITEM	BALANCE AS AT 30.09.2012	BALANCE AS AT 31.12.2011	Index (2:3)*100
	1	2	3	4
I	**LOANS TO CUSTOMERS (1+2+3)**	**177.808.973**	**155.719.207**	**114,19**
1.	Corporate	116.398.435	98.486.288	118,19
2.	Retail	56.737.043	48.555.491	116,85
3.	Banks and financial organizations	4.673.494	8.677.427	53,86
II	**DEPOSITS FROM CUSTOMERS (1+2+3)**	**230.891.811**	**206.123.280**	**112,02**
1.	Corporate	59.653.706	56.243.065	106,06
2.	Retail	162.422.952	143.061.647	113,53
3.	Banks and financial organizations	8.815.153	6.818.567	129,28

NOTE: Deposits also include transaction deposits.

Total loans to the Bank's customers, as at 30.09.2012 stood at RSD 177,809.0 million and had risen from the end of the previous year by RSD 22,089.8 million or 14.2%. At the end of the third quarter 2012 the level of loans and deposits to customers was greatly affected by corporate loans, which reached RSD 116,398.4 million at the end of September.

FX SAVINGS IN THE PERIOD FROM31.12.2011 TO 30.09.2012



With a reputation of a safe and stable bank in the Serbian market, the Bank managed to increase its FX savings in the observed period by EUR 54.9 million or 4.4%.
Despite a deep economic crisis, FX savings rose in the first nine months of 2012 and reached EUR 1,298.7 million.
Depositors' trust enabled the Bank to retain its leading position in the banking sector of the Republic of Serbia in terms of the level of FX savings, image and recognizability.

4.4. Commission Operations and Off-Balance Sheet Items in 2012

(U 000 RSD)

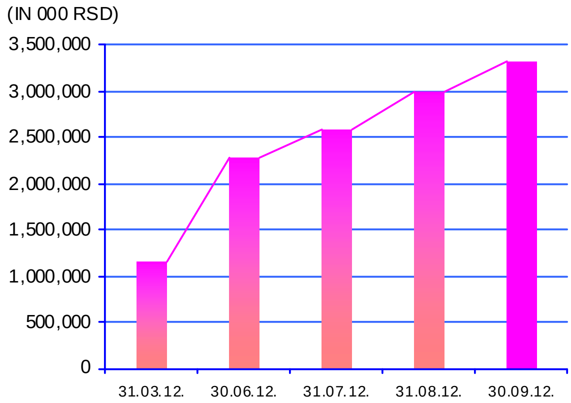
No.	ITEM	BALANCE 30.09.12	BALANCE 31.12.2011	Index (2:3)*100
	1	2	3	4
I	**OPERATIONS FOR AND ON BEHALF OF (commission operations)**	**4.949.260**	**4.332.764**	**114,2**
II	**CONTINGENT LIABILITIES**	**33.396.681**	**32.402.457**	**103,1**
1.	Payable guaranties	8.698.814	7.145.564	121,7
2.	Performance bonds	7.718.568	6.812.395	113,3
3.	Bill guaranties and bill acceptance	65.025	77.853	83,5
4.	Undrawn commitments	15.597.918	16.324.350	95,6
5.	Other off-balance sheet items that may lead to payment by the bank	410.081	1.328.990	30,9
6.	Uncovered letters of credit	906.276	713.306	127,1
III	**UNCLASSIFIABLE OFF-BALANCE SHEET ITEMS**	**154.591.309**	**146.789.676**	**105,3**
1.	FX savings bonds	7.637.540	7.843.967	97,4
2.	Securities in custody	135.744.190	127.962.425	106,1
3.	Other off-balance sheet items	11.209.580	10.983.284	102,1
	TOTAL (I +II+III)	**192.937.251**	**183.524.897**	**105,1**

As at 30.09.2012 contingent off-balance sheet liabilities amounted to a total of RSD 33,396.7 million – an increase of RSD 994.2 million or 3.1% compared to the end of the previous year, mostly due to an increase in the value of issued guarantees and undrawn commitments.

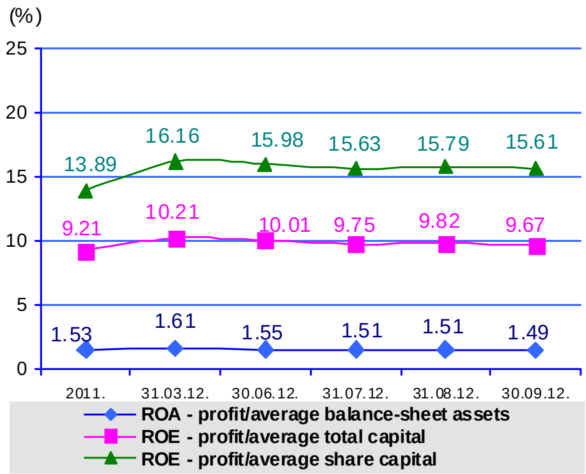
I T E M	30.09.12	31.08.12	31.07.12	30.06.12	31.03.12	31.12.11
OPERATING PROFIT	**3.332.436**	**2.996.801**	**2.594.532**	**2.274.424**	**1.149.533**	**3.952.066**
Increase / decrease (as %)*	*12,2%*	*15,0%*	*12,4%*	*13,33%*	*28,42%*	*41,6%*
PROFITABILITY INDICATORS:						
ROA - profit / average balance-sheet assets	**1,49%**	**1,51%**	**1,51%**	**1,55%**	**1,61%**	**1,53%**
ROE - profit / average total capital	**9,67%**	**9,82%**	**9,75%**	**10,01%**	**10,21%**	**9,21%**
ROE - profit / average share capital	**15,61%**	**15,79%**	**15,63%**	**15,98%**	**16,16%**	**13,89%**
INTEREST GAINS	**7.738.231**	**6.716.695**	**5.846.885**	**5.060.711**	**2.528.418**	**9.853.368**
Increase (as %)*	*7,60%*	*6,53%*	*7,14%*	*9,77%*	*18,77%*	*32,48%*
FEE AND COMMISSION GAINS	**3.315.893**	**2.922.167**	**2.539.170**	**2.126.915**	**1.000.793**	**4.423.399**
Increase / decrease (as %)*	*2,43%*	*2,20%*	*2,32%*	*0,71%*	*-0,90%*	*13,64%*

* as % compared to the same period previous year

OPERATING PROFIT



PROFITABILITY INDICATORS



Despite the adverse effect of the global financial crisis, in the first nine months this year the Bank achieved a significant rise in profitability (12.2%), compared to the same period previous year. The Bank's realized profit in the period from January 1 to September 30, 2012 was RSD 3,332.4 million, which was an increase of RSD 361.6 million compared to the same period the previous year. Such a significant increase in profit resulted in return on total capital of 9.67% in the first nine months of 2012 and return on share capital of 15.61%.

What mostly contributed to the growth of profit in the first three quarters of 2012 was an increase in net interest income (7.6%) and other income, mostly from the sale of securities available for sale.

Retaining almost the same number of employees while increasing the volume of business improved the Bank's ratio of assets to the number of employee. In the first nine months of 2012 assets per employee increased in the Bank from RSD 91.2 million, at the end of 2011, to RSD 102.1 million as at 30.09.2012.

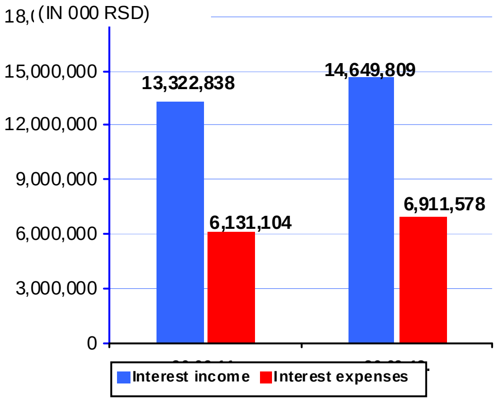
Due to an increase in operating expenses, mostly cost of material and deposit insurance premiums, there was a slight increase in Cost Income Ratio (CIR) from 63.0% at the end of 2011 to 64.3% as of 30.09.2012, which is still within the planned value.

5. INCOME STATEMENT FOR THE PERIOD FROM 01.01.2012 TO 30.09.2012

(IN 000 RSD)

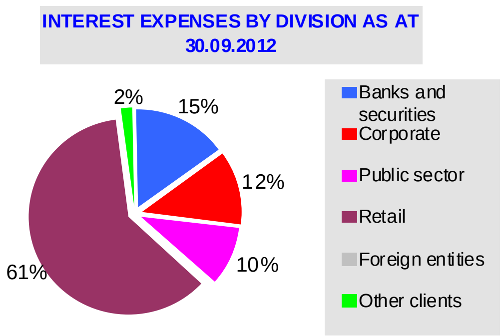
No.	ITEMS	30.09.2012	30.09.2011	INDEXES (3:4)
	2	3	4	5
	OPRATING INCOME AND EXPENSES			
1.1.	Interest income	14.649.809	13.322.838	109,96
1.2.	Interest expenses	6.911.578	6.131.104	112,73
1.	**Interest gains**	**7.738.231**	**7.191.734**	**107,60**
2.1.	Fee and commission income	3.869.409	3.663.257	105,63
2.2.	Fee and commission expenses	553.515	425.990	129,94
2.	**Fee and commission gains**	**3.315.894**	**3.237.267**	**102,43**
3.	Net profit / loss from sale of securities at fair value through income statement	-1.104	-4.132	26,72
4.	Net profit / loss from sale of securities available for sale	83.947	1.254	6.694,34
5.	Net profit / loss from sale of stake (share)	-	-	-
6.	Net profit / loss from sale of other loans and advances	-	-	-
7.	Net profit / loss from exchange rate differentials and valuation adjustment of assets and liabilities	100.987	-134.094	-75,31
8.	Income from dividends and stakes	1.849	7.364	25,11
9.	Other operating income	183.007	132.287	138,34
10.	Net income / expense from indirect write-off of loans and provisions	-950.361	-1.035.308	91,80
11	Cost of salaries, benefits and other personnel expenses	3.028.487	2.806.019	107,93
12.	Depreciation costs	558.236	488.701	114,23
13.	Operating and other business expenses	3.553.291	3.130.774	113,50
14.	**RESULT FOR THE PERIOD – PROFIT BEFORE TAX (from 1 to 13)**	**3.332.436**	**2.970.878**	**112,17**
15.	Profit tax	-	-	-
16.	Profit from increased deferred tax assets and decreased deferred liabilities	-	-	-
17.	Loss from decreased deferred tax assets and increased deferred tax liabilities	-	-	-
18.	**PROFIT (from 14 to 17)**	**3.332.436**	**2.970.878**	**112,17**

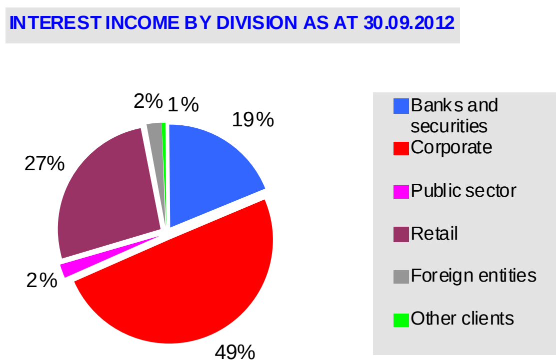
5.1. Interest Income and Expense



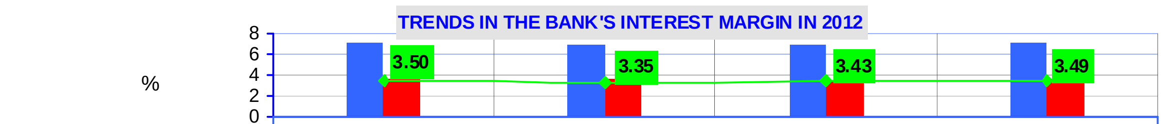
Interest income for the first nine months of 2012 was RSD 7,738.2 million, which is an increase of 7.6% from the same period last year.

Compared to the same period last year, lending rate income was greater by RSD 1,327.0 million or 10.0%, while borrowing rate expenses rose by RSD 780.4 million or 12.7%.





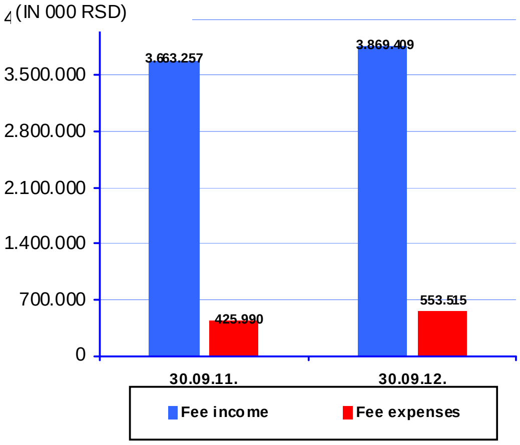
Interest income from loans to companies (RSD 7,337.4 million or 50.1%) account for the largest share of total interest income, while interest expenses from interest on retail deposits (RSD 4,236.7 million or 61.3%) account for the largest portion of total interest expenses. The largest part of these expenses arise from retail FX savings deposits.



	Q4 '11	Q1 '12	Q2 '12	Q3 '12
Average lending rate	7.14	6.94	7.00	7.12
Average borrowing rate	3.64	3.59	3.57	3.63
Average interest margin	3.50	3.35	3.43	3.49

In the third quarter of 2012 the average lending rate was 7.12% and average borrowing rate 3.63%, which set the Bank's average interest margin at 3.49% in the third quarter of 2012.

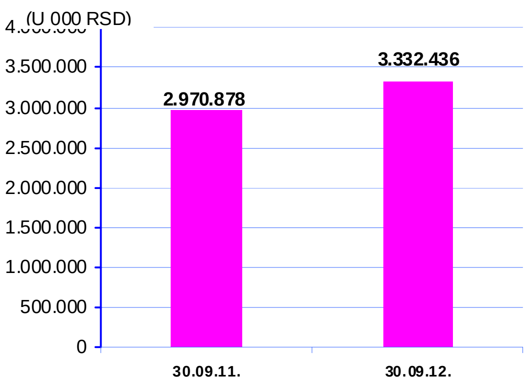
5.2. Fee Income and Expenses



In the first nine months of 2012 fee and commission gains amounted to RSD 3,315.9 million and only marginally exceeded the value from the same period last year (2.4%).

Compared to same period last year, fee and commission income from banking services rose by RSD 206.2 million or 5.6%, while fee and commission expenses rose by RSD 127.5 million or by 29.9%.

5.3. Realized Operating profit



Despite adverse and unpredictable macroeconomic operating conditions and recession in both our economy and economies abroad, in the period from 01.01. to 30.09.2012 the Bank realized operating profit in the amount of RSD 3,332.4 million, which was an increase of 12.2% compared to the same period last year.

Such an increase in realized operating profit resulted in return on total capital of 9.7%, in the first nine months of 2012, and return on share capital of 15.6%.

6. PERFORMANCE INDICATORS PRESCRIBED BY THE LAW ON BANKS AND A DESCRIPTION OF TRANSACTIONS WITH THE BANK'S RELATED ENTITIES

No.	ITEM	PRESCRIBED	30.09.12.	30.06.12.	31.03.12.	31.12.11.
1.	Capital adequacy ratio (net capital / credit risk + operating risks + open FX position)	MIN. 12%	**16,69%**	**15,50%**	**16,11%**	**17,25%**
2.	Ratio of investment into entities outside the financial sector and fixed assets	MAX. 60%	**23,99%**	**27,27%**	**27,93%**	**27,98%**
3.	Bank's large exposure ratio	MAX. 400%	**154,51%**	**166,19%**	**190,13%**	**109,51%**
4.	FX risk ratio	MAX. 20%	**1,65%**	**0,42%**	**0,92%**	**1,68%**
5.	Liquidity ratio	MIN. 0,8%	**3,03%**	**2,76%**	**3,14%**	**2,91%**

Description of transactions with entities related to the Bank

As at 30.09.2012 the Bank's related entities are:

1. Komercijalna banka a.d. Budva, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
3. Kombank Invest a.d. Beograd
4. three legal entities and a large number of natural persons, according to the provisions of Article 2 of the Law on Banks in the part that defines the meaning of "an entity related to the bank".

Total exposure to entities related to the Bank as at 30.09.2012 was RSD 712,716 thousand which accounted for 2.3% of the capital of RSD 30,884,678 thousand (According to the Law on Banks, maximum allowed value of total lending to all entities related to the Bank is 20% of capital.).
As at 30.09.2012, the largest portion of exposure to entities related to the Bank, RSD 699,434 thousand or 2.3 % of the Bank's Capital is composed of lending to natural persons that are related to the Bank.
In accordance with Article 37 of the Law on Banks, the Bank did not allow its related entities terms that are more favorable than those granted to entities unrelated to the Bank or to persons who are not employees of the Bank.

7. KEY DATA ON BUSINESS PLAN IMPLEMENTATION FOR 2012

Implementation of the Strategy and Business Plan in the first nine months of 2012 was carried out in significantly changed macroeconomic operating conditions, of which the most important ones are:

- contrary to the projections, there was a year-on-year decrease in GDP of 2.2% in the third quarter of 2012,
- trends in Dinar exchange rate went contrary to what was projected and expected (planned exchange rate: 1 Euro = 106.50, actual: 1 Euro = 115.03 RSD),
- inflation rate (year-on-year rate of 10.3% - September 2012 / September 2011) continued its growth and greatly exceeded the approved departure from the upper limit for September this year (6.0%),

Apart from the above-mentioned, in the first nine months of 2012, banks' operations were also greatly affected by the economic crisis in the Eurozone, freezing the arrangement with IMF, foreign investors' reluctance to invest in Serbia, decreased demand for loans, increased credit risk due to recession and unemployment in the real sector, full implementation of the Basel II standard and the Consumer Protection Law.

7.1. Planned and realized values of the balance-sheet in the first nine months of 2012

The Bank's total balance-sheet assets in the third quarter of 2012 reached RSD 307,791.8 million and exceeded the planned value by RSD 26,628.7 million or 9.5%. Significant gap between the planned and realized values was recorded with callable deposits and loans and investment into securities. The gap of other items is mostly a result of trends in RSD exchange rate, which differed from projected and expected value (RSD/Euro exchange rate: planned 1 Euro = 106.50 RSD, realized: 1 Euro = 115.03 RSD).
Recorded growth of balance-sheet assets secured the Bank a rise in market share from 10.4% in 2011 to 10.8% at the end of the third quarter of this year, which exceeds the planned market share (10.4%).
Planned and achieved items from both the assets and liabilities side in the balance sheet have the following values, as at 30.09.2012:

(in 000 RSD)

	I T E M	PLANNED 30.09.2012.	Achieved 30.09.2012.	Achievement of Plan in %
1	2	3	4	5=4/3
	ASSETS			
1.	Cash and cash equivalents and callable deposits and loans	15.537.743	32.084.250	206,49
2.	**Loans and deposits to customers (2.1+2.2+2.3)**	**161.853.552**	**177.808.973**	109,86
2.1.	Corporate	105.905.322	116.398.435	109,91
2.2.	Retail	50.028.873	56.737.043	113,41
2.3.	Banks	5.919.357	4.673.494	78,95
3.	Other assets	103.771.741	97.898.549	94,34
4.3	**TOTAL ASSETS (1+2+3)**	**281.163.036**	**307.791.772**	109,47
	LIABILITIES			
1.	**Deposits**	202.945.625	230.891.811	113,77
1.1.	Corporate	51.232.572	59.653.706	116,44
1.2.	Retail	145.659.912	162.422.952	111,51
1.3.	Banks and financial organizations	6.053.142	8.815.153	145,63
2.	Other liabilities	30.634.551	29.575.582	96,54
3.	**Total liabilities (1+2)**	**233.580.176**	**260.467.392**	111,51
4.	**Total capital**	**47.582.860**	**47.324.380**	99,46
5.	**TOTAL LIABILITIES (3+4)**	**281.163.037**	**307.791.772**	109,47

7.2. Planned and Realized Values of the Income Statement for the Period 01.01.2012 - 30.09.2012

(in 000 RSD)

	ITEM	PLANNED 01.01.-30.09.12	ACHIEVED 01.01.-30.09.12	Achievement of Plan in %
1	2	3	4	5=4/3
1.1.	Interest income	14.208.750	14.649.809	103,10
1.2.	Interest expenses	-6.591.000	-6.911.578	104,86
1.	**Interest gains (1.1.-1.2)**	**7.617.750**	**7.738.231**	101,58
2.1.	Fee and commission income	4.047.969	3.869.409	95,59
2.2.	Fee and commission expenses	-468.000	-553.515	118,27
2.	**Fee and commission gains (2.1. -2.2.)**	**3.579.969**	**3.315.893**	92,62
3.	Net exchange rate gains and valuation adjustment (FX clause)	75.000	100.987	134,65
4.	Other operating income	146.250	269.579	184,33
5.	Net expenses/income from indirect loan write-off and provisions	-876.750	-950.361	108,40
6.	Operating and other expenses	-7.267.500	-7.141.893	98,27
7.	**OPERATING PROFIT**	**3.274.719**	**3.332.436**	101,76

KOMERCIJALNA BANKA AD BEOGRAD

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД 3

BALANCE SHEET

on 30.09.2012.

(in RSD thousand)

POSITION	ADP code	Amount	
		Current year ammount	Previous year ammount
1	2	3	4
ASSETS			
Cash and cash equivalents	001	32.084.250	17.228.970
Revocable deposits and loans	002	38.655.778	55.260.711
Revocables from interest, compensations, sale, change of derivatives fair value and other receivables	003	1.364.435	1.187.573
Loans, advances and deposits of clients	004	177.808.973	155.719.207
Securities (without own shares)	005	36.357.792	25.637.972
Shares (participation)	006	5.888.989	5.823.583
Other invesments	007	3.381.141	2.187.533
Intangible assets	008	563.668	555.415
Fixed assets and invested immovables	009	7.401.326	7.530.271
Permanent assets for sale and assets of businesses to be ceased	010	101.040	101.040
Deferred tax assets	011	29.870	-
Other assets	012	4.154.510	4.256.443
Losses above equity	013	-	-
TOTAL ASSETS (from 001 to 013)	014	307.791.772	275.488.718
LIABILITIES			
Transaction deposits	101	32.949.793	31.456.575
Other deposits	102	197.942.017	174.666.705
Received loans	103	387.804	1.603.761
Liabilities for issued securities	104	-	-
Liabilities for interest, compensations and change of derivatives fair value	105	145.474	205.079
Provisions	106	2.312.621	2.135.436
Liabilities for tax	107	54.510	39.737
Liabilities for profit	108	88.040	172.197
Liabilities from assets for sale and assets of businesses to be ceased	109	-	-
Deferred tax liabilities	110	46.906	17.036
Other liabilities	111	26.540.227	20.916.626
TOTAL LIABILITIES (from 101 to 111)	112	260.467.392	231.213.152
EQUITY			
Equity	113	28.462.553	28.462.553
Reserves from profit	114	14.785.440	11.635.440
Revaluation reserves	115	771.588	689.620
Unrealized losses from securities for sale	116	81.266	63.940
Profit	117	3.386.065	3.551.893
Loss up to equity	118	-	-
TOTAL EQUITY (from 113 to 115+117-116-118)	119	47.324.380	44.275.566
TOTAL LIABILITIES (112+119)	120	307.791.772	275.488.718
OFF-BALANCE SHEET ITEMS (from 122 to 126)	121	192.937.251	183.524.897
Transactions for and on behalf of third parties	122	4.949.260	4.332.764
Future obligation acceptance	123	38.971.173	36.215.842
Received warranties for liabilities	124	-	-
Derivatives	125	5.752	261.602
Other off-balance sheet items	126	149.011.066	142.714.689

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
3

PROFIT AND LOSS ACCOUNT

from 01.01.2012. to 30.09.2012.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.07.-30.09.	01.01.-30.09.	01.07.-30.09.	01.01.-30.09.
1	2	3	4	5	6
OPERATING INCOME AND EXPENSES					
Interest income	201	4.983.158	14.649.809	4.645.234	13.322.838
Interest expenses	202	2.305.638	6.911.578	2.063.876	6.131.104
Interest profit (201-202)	203	2.677.520	7.738.231	2.581.358	7.191.734
Interest losses (202-201)	204	-	-	-	-
Fees and compensations income	205	1.395.642	3.869.409	1.280.662	3.663.257
Fees and compensations expense	206	206.663	553.515	155.276	425.990
Fees and compensations profit (205-206)	207	1.188.979	3.315.894	1.125.386	3.237.267
Fees and compensations loss (206-205)	208	-	-	-	-
Net profit from sale of securities per fair value in Profit and loss account	209	-	-	-	-
Net loss from sale of securities per fair value in Profit and loss account	210	-	1.104	68	4.132
Net profit from sale of securities	211	1.878	83.947	-	1.254
Net loss from sale of securities	212	-	-	-	-
Net profit from sale of securities held to maturity	213	-	-	-	-
Net losses from sale of securities held to maturity	214	-	-	-	-
Net profit from sale of participation shares (participations)	215	-	-	-	-
Net losses from sale of participation shares (participations)	216	-	-	-	-
Net profit from sale of other investment	217	-	-	-	-
Net losses on sale of other investment	218	-	-	-	-
Net income from exchange rate changes	219	781.586	-	1.155.049	3.014.509
Net expenses from exchange rate changes	220	-	9.222.483	-	-
Income from dividends and participation	221	543	1.849	283	7.364
Other operating income	222	63.089	183.007	37.121	132.287
Net income from indirect write-off of advances and provisioning	223	-	-	-	-
Net expenses on indirect write-off of advances and provisioning	224	663.099	950.361	504.742	1.035.308
Saleries, Wages, and other personal indemnites	225	1.013.882	3.028.487	979.290	2.806.019
Depreciation costs	226	188.775	558.236	175.098	488.701
Other operating expenses	227	1.067.196	3.553.291	1.090.123	3.130.774
Income from change in value of assets and liabilities	228	3.316.189	16.453.538	713.675	8.568.628
Expenses on change in value of assets and liabilities	229	4.038.820	7.130.068	1.899.499	11.717.231
PROFIT FROM REGULAR OPERATIONS (203-204+207-208+209-210+211 -212+213-214+215-216+217-218+219-220+221 +222+223-224-225-226-227+228-229)	230	1.058.012	3.332.436	964.052	2.970.878
LOSSES FROM REGULAR OPERATIONS (204-203+208-207+210-209+212-211 +214-213+216-215+218-217+220-219-221 -222+224-223+225+226+227-228+229)	231	-	-	-	-
NET PROFIT OF BUSINESSES TO BE CEASED	232	-	-	-	-
NET LOSS OF BUSINESSES TO BE CEASED	233	-	-	-	-
RESULT FOR THE PERIOD - PROFIT BEFORE TAX (230-231+232-233)	234	1.058.012	3.332.436	964.052	2.970.878
RESULT FOR THE PERIOD - LOSSES BEFORE TAX (231-230+233-232)	235	-	-	-	-
Tax on profit	236				
Profit from created deferred tax assets and decrease of deferred tax liabilities	237				
Loss from decrease of deferred tax assets and creation of deferred tax liabilities	238				
PROFIT (234-235-236+237-238)	239	1.058.012	3.332.436	964.052	2.970.878
LOSSES (235-234+236+238-237)	240	-	-	-	-
Earnings per share (in dinars)	241				
Basic earnings per share (in dinars)	242				
Diluted earnings per share (in dinars)	243				

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

CASH FLOW STATEMENT

from 01.01.2012. to 30.09.2012.

(in RSD thousand)

POSITION	ADP code	Amount	
		01.01. - 30.09.2012.	01.01. - 30.09.2011.
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflows from operating activities (from 302 to 305)	301	17.569.331	16.832.025
1. Inflows from interest	302	13.558.656	12.882.708
2. Inflows from allowances	303	3.868.999	3.674.193
3. Inflows from other operating income	304	139.827	267.760
4. Inflows from dividends and participation in profit	305	1.849	7.364
II. Cash outflows from operating activities (from 307 to 311)	306	12.291.052	11.184.355
5. Outflows from interest	307	5.052.905	4.911.289
6. Outflows from allowances	308	560.206	432.903
7. Outflows from gross salleries, wages and other personal indemnities	309	2.858.785	2.629.543
8. Outflows from taxes, contributions and other obligations from income	310	620.768	552.867
9. Outflows from other operating expenses	311	3.198.388	2.657.753
III. Net cash inflow from operating activities prior to increase or decrease in advances and deposits (301 minus 306)	312	5.278.279	5.647.670
IV. Net cash outflow from operating activities prior to increase or decrease in advances and deposits (306 minus 301)	313	-	-
V. Decrease in advances and increase in deposits withdrawn (from 315 to 317)	314	29.601.406	3.320.919
10. Decrease in loans and advances to banks and clients	315	4.181.258	-
11. Decrease in securities per fair value in profit and loss account, tradeable advances and short-term securities held to maturity	316	3.124.963	3.320.919
12. Increase in banks and clients deposits	317	22.295.185	-
VI. Increase in advances and decrease in deposits withdrawn (from 319 to 321)	318	-	10.935.064
13. Increase in loans and advances to banks and clients	319	-	7.206.612
14. Increase in securities per fair value in profit and loss account, tradeable advances and short-term securities held to maturity	320	-	-
15. Decrease in deposits from banks and clients	321	-	3.728.452
VII. Net cash inflow from operating activities before tax on profit (312 minus 313 plus 314 minus 318)	322	34.879.685	-
VIII. Net cash outflow from operating activities before tax on profit (313 plus 318 minus 312 minus 314)	323	-	1.966.475
16. Profit tax paid	324	510.026	249.530
17. Dividends paid	325	252.665	289.042
IX. Net cash inflow from operating activities (322 minus 323 minus 324 minus 325)	326	34.116.994	-
X. Net cash outflow from operating activities (323 minus 322 plus 324 plus 325)	327	-	2.505.047
B. CASH FLOWS FROM INVESTING ACTIVITIES			
I. Cash inflows from investing activities (from 329 to 333)	328	1.171.265	24.454
1. Inflows from long-term investment in securities	329	1.144.421	13.557
2. Inflows from sale of shares (participation)	330	-	-
3. Inflows from sale of intangible and fixed assets	331	26.844	10.897
4. Inflows from sale of investment immovables	332	-	-
5. Other inflows from investing activities	333	-	-
II. Cash outflows from investing activities (from 335 to 339)	334	14.656.960	6.864.383
6. Outflows from investment in long-term securities	335	14.186.777	6.308.200
7. Outflows from purchase of shares (participation)	336	751	1.846
8. Outflows from purchase of sale of intangible and fixed assets	337	469.432	554.337
9. Outflows from purchase investment immovables	338	-	-
10.Other outflows from investing activities	339	-	-
III. Net cash inflow from investing activities (328 minus 334)	340	-	-
IV. Net cash outflow from investing activities (334 minus 328)	341	13.485.695	6.839.929
V. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflows from financing activities (from 343 to 348)	342	3.446.464	2.167.910
1. Inflows from capital increase	343	-	-
2. Net cash inflows from subordinated obligations	344	519.555	-
3. Net cash inflows from loans received	345	2.926.909	2.167.910
4. Net inflows from securities	346	-	-
5. Net inflows from sale of own shares	347	-	-
6. Other inflows from financing activities	348	-	-
II. Cash outflows from financing activities (from 350 to 354)	349	-	-
7. Outflows from purchase of own shares	350	-	-
8. Net outflows from subordinated obligations	351	-	-
9. Net cash outflows from loans received	352	-	-
10. Net outflows from securities	353	-	-
11. Other outflows from financing activities	354	-	-
III. Net cash inflow from financing activities (342 minus 349)	355	3.446.464	2.167.910
IV. Net cash outflow from financing activities (349 minus 342)	356	-	-
G. TOTAL NET CASH INFLOWS (301 plus 314 plus 328 plus 342)	357	51.788.466	22.345.308
D. TOTAL NET CASH OUTFLOWS(306 plus 318 plus 324 plus 325 plus 334 plus 349)	358	27.710.703	29.522.374
DJ. NET INCREASE IN CASH (357 minus 358)	359	24.077.763	-
E. NET DECREASE IN CASH (358 minus 357)	360	-	7.177.066
Ж. CASH AT THE BEGINNING OF THE YEAR (Note: ___) (361, col. 3 = 001, col. 6)	361	17.228.970	20.724.645
Z. PROFIT ON EXCHANGE	362	6.834.141	6.795.648
I. LOSS ON EXCHANGE	363	16.056.624	3.781.139
J. CASH AT END-PERIOD (Note: ___) 359 minus 360 plus 361 plus 362 minus 363) (364, col. 3 = 001, col. 5 and 364, col. 4 = 001, col. 6) (364, col. 4 = 361, col. 3)	364	32.084.250	16.562.088

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

КОМЕРЦИЈАЛНА БАНКА А.Д. БЕОГРАД

БЕОГРАД

3

CAPITAL CHANGES STATEMENT

from 01.01.2012. to 30.09.2012.

(in RSD thousand)

DESCRIPTION	ADP	Share capital (acc. 800)	ADP	Other capital (acc. 801)	ADP	Subscribed share capital unpaid (acc. 803)	ADP	Share Premium (acc. 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82, except for acc.823)	ADP	Profit (group of accounts 83)	ADP	Losses up to equity (acc. 840, 841)	ADP	Own shares (acc. 128)	ADP	Unrealized losses on securities for sale (acc.823)	ADP	Total (col. 2+3-4+5+6+7+8-9-10-11)	ADP	Losses above equity(acc. 842)
1		2		3		4		5		6		7		8		9		10		11		12		13
State at 1 January, of the previous 2011. year	401	13.881.010	414		427		440	14.581.543	453	9.235.440	466	663.008	479	2.709.309	492		505		518	15.882	531	41.054.428	544	
Correction of material important mistakes and changes of accounting policies in the prior year - increase	402		415		428		441		454		467		480		493		506		519		532		545	
Correction of material important mistakes and changes of accounting policies in the prior year - decrease	403		416		429		442		455		468		481		494		507		520		533		546	
Corrected opening balance as at 1 January of the previous 2011 year (no.1+2-3)	404	13.881.010	417		430		443	14.581.543	456	9.235.440	469	663.008	482	2.709.309	495		508		521	15.882	534	41.054.428	547	
Total increase in the previous year	405		418		431		444		457	2.400.000	470	82.249	483	3.968.545	496		509		522	49.855	535	6.400.939	548	
Total decrease in the previous year	406		419		432		445		458		471	55.637	484	3.125.961	497		510		523	1.797	536	3.179.801	549	
State at 31 December of the previous 2011 year (no. 4+5-6)	407	13.881.010	420		433		446	14.581.543	459	11.635.440	472	689.620	485	3.551.893	498		511		524	63.940	537	44.275.566	550	
Correction of material important mistakes and changes of accounting policies in the current year - increase	408		421		434		447		460		473		486		499		512		525		538		551	
Correction of material important mistakes and changes of accounting policies in the current year - decrease	409		422		435		448		461		474		487		500		513		526		539		552	
Corrected opening balance as at 1 January of the current 2012 year (no. 7+8-9)	410	13.881.010	423		436		449	14.581.543	462	11.635.440	475	689.620	488	3.551.893	501		514		527	63.940	540	44.275.566	553	
Total increase in the current year	411		424		437		450		463	3.150.000	476	81.968	489	3.332.437	502		515		528	21.379	541	6.543.026	554	
Total decrease in the current year	412		425		438		451		464		477		490	3.498.265	503		516		529	4.053	542	3.494.212	555	
State at 30 September of the current 2012 year (no.10+11-12)	413	13.881.010	426		439		452	14.581.543	465	14.785.440	478	771.588	491	3.386.065	504		517		530	81.266	543	47.324.380	556	

NOTES

TO FINANCIAL STATEMENTS FOR THE THIRD QUARTER OF 2012

Belgrade, October 2012

1. INCORPORATION AND OPERATION OF THE BANK

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

As at September the 30th 2012, the largest voting shareholdings in the Bank's are:

1. Republic of Serbia
2. EBRD, London, and
3. ARTIO INT. EQUITY FUND, New York

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

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

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

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

As of September the 30th 2012, the Bank consisted of the Head Office in Belgrade located in Svetog Save Street, No. 14, 24 branches and 228 sub-branches.

As at September the 30th 2012, the Bank employed 3.015 persons, and on 31 December 2011, the number of employees was 3,022. 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 and Audit of the Republic of Serbia (RS Official Gazette, numbers 46/2006, 111/2009), 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 and Audit, 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.

At preparing and presenting interim financial statements for the January-September 2012 period, the Bank was using the same accounting policies and calculation methods as used when preparing the Annual Financial Statements for 2011.

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 conformance with the Law on Capital Market (RS Official Gazette, number 31/2011). The prescribed set of quarterly financial statements includes Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Capital, and Notes to Financial Statements.

2.2. Assessment Rules

Financial statements are prepared based upon 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 thousand of dinars (RSD). The dinar is the official reporting currency in the Republic of Serbia and functional currency of the Bank.

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

BALANCE SHEET

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

In thousand RSD

	30.09.2012		31.12.2011	
ASSETS	Amount	%	Amount	%
Cash and cash equivalents	32.084.250	10,42	17.228.970	6,25
Callable deposits and loans	38.655.778	12,56	55.260.711	20,06
Receivables based on interest, fees, sales, change in fair value, derivates and other receivables	1.364.435	0,44	1.187.573	0,43
Loans and deposits	177.808.973	57,77	155.719.207	56,52
Securities (without treasury shares)	36.357.792	11,81	25.637.972	9,31
Stakes (participations)	5.888.989	1,91	5.823.583	2,11
Other Investments	3.381.141	1,10	2.187.533	0,79
Intangible investments	563.668	0,19	555.415	0,20
Fixed assets and investment properties	7.401.326	2,40	7.530.271	2,73
Non-current assets intended for sale and assets of discontinued operations	101.040	0,03	101.040	0,04
Deferred tax assets	29.870	0,01	-	-
Other assets	4.154.510	1,36	4.256.443	1,55
TOTAL ASSETS	**307.791.772**	**100,00**	**275.488.718**	**100,00**

In thousand RSD

LIABILITIES	30.09.2012 Amount	%	31.12.2011 Amount	%
Transaction deposits	32.949.793	10,71	31.456.575	11,42
Other deposits	197.942.017	64,31	174.666.705	63,40
Loans received	387.804	0,13	1.603.761	0,58
Liabilities based on interest, fees, and change in derivatives' value	145.474	0,05	205.079	0,07
Provisions	2.312.621	0,75	2.135.436	0,78
Tax liabilities	54.510	0,02	39.737	0,01
Liabilities from profit	88.040	0,03	172.197	0,06
Deferred tax liabilities	46.906	0,02	17.036	0,01
Other liabilities	26.540.227	8,60	20.916.626	7,59
Capital	47.324.380	15,38	44.275.566	16,07
TOTAL LIABILITIES	**307.791.772**	**100,00**	**275.488.718**	**100,00**

INCOME STATEMENT

Income and expense structure and their share in the corresponding 2012 Income Statement categories are as follows:

In thousand RSD

INCOME	30.09.2012 Total	30.09.2011 Total
Interest income	14.649.809	13.322.838
Fee and commission income	3.869.409	3.663.257
Net profit based on sale of securities at fair value through Profit & Loss	-	-
Net profit based on sale of securities available for sale	83.947	1.254
Net FX gains	-	3.014.509
Income from dividends and stakes	1.849	7.364
Other operating income	183.007	132.287
Income based on change in the value of property and obligations	16.453.538	8.568.628

In thousand RSD

	30.09.2012	30.09.2011
EXPENSES	Total	Total
Interest expense	6.911.578	6.131.104
Fee and commission expense	553.515	425.990
Net loss based on sale of securities at fair value through Income Statement	1.104	4.132
Net expense based on exchange differentials	9.222.483	-
Net expenses based on indirect write-off of loans and provisions	950.361	1.035.308
Costs of wages, wage compensation and other personal expenses	3.028.487	2.806.019
Depreciation costs	558.236	488.701
Operating and other operating expenses	3.553.291	3.130.774
Expenses based on change in the value of property and obligations	7.130.068	11.717.231

Result of the period (profit)	**3.332.436**	**2.970.878**

CASH FLOW STATEMENT

In thousand RSD

	30.09.2012	30.09.2011
Item	Total	Total
Cash inflows from operating activities	**17.569.331**	**16.832.025**
Inflow from interest	13.558.656	12.882.708
Inflow from fees	3.868.999	3.674.193
Inflow from other operating income	139.827	267.760
Inflow from dividends and share in the profit	1.849	7.364
Cash outflows from operating activities	**12.291.052**	**11.184.355**
Outflow based on interest	5.052.905	4.911.289
Outflow based on fees	560.206	432.903
Outflow based on gross wages, wage compensation and other personal expenses	2.858.785	2.629.543
Outflow based on taxes, contributions and other charges against income	620.768	552.867
Outflows based on other operating costs	3.198.388	2.657.753
Net cash inflow from operating activities before increase or decrease in loans and deposits	**5.278.279**	**5.647.670**
Decrease in lending and increase in deposits	**29.601.406**	**3.320.919**
Decrease in loans and lending to banks and customers	4.181.258	-
Decrease in securities at fair value through Income Statement, investments held for trading and short-term securities held to maturity	3.124.963	3.320.919
Increase of deposits from banks and customers	22.295.185	-

In thousand RSD

Item	30.06.2012 Total	30.06.2011 Total
Increase of loans and decrease of taken deposits	**-**	**10.935.064**
Increase of loans and investments to banks and customers	-	7.206.612
Increase of securities at fair value through Income Statement, trading investments and short-term securities held to maturity	-	-
Decrease of deposits from banks and customers	-	3.728.452
Net cash inflow from operating activities before profit tax	**34.879.685**	**-**
Net cash outflow from operating activities before profit tax	**-**	**1.966.475**
Paid profit tax	510.026	249.530
Paid dividends	252.665	289.042
Net cash inflow from operating activities	**34.116.994**	**-**
Net cash outflow from operating activities	**-**	**2.505.047**
Cash inflows from investment activities	**1.171.265**	**24.454**
Inflow from long-term investment in securities	1.144.421	13.557
Inflow from sale of intangible investments and fixed assets	26.844	10.897
Cash outflows from investment activities	**14.656.960**	**6.864.383**
Outflow based on investment in long-term securities	14.186.777	6.308.200
Outflow for purchase of stakes (participations)	751	1.846
Outflow for purchase of intangible investments and fixed assets	469.432	554.337
Net cash outflows from investment activities	**13.485.695**	**6.839.929**
Cash inflows from financing activities	**3.446.464**	**2.167.910**
Net cash inflows based on subordinated obligations	519.555	-
Net cash inflows based on borrowed loans	2.926.909	2.167.910
Net cash inflow from financing activities	**3.446.464**	**2.167.910**
Total net cash inflow	**51.788.466**	**22.345.308**
Total cash outflow	**27.710.703**	**29.522.374**
Net cash increase	**24.077.763**	**-**
Net cash decrease	**-**	**7.177.066**
Cash at the beginning of the year	**17.228.970**	**20.724.645**
Positive exchange rate differentials	6.834.141	6.795.648
Negative exchange rate differentials	16.056.624	3.781.139
Cash at the period-end	**32.084.250**	**16.562.088**

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 the conditions from the obligation relationship that are 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 between January and September 2012 totalled RSD 7.738.231 thousand and was RSD 546.497 thousand or 7.60% higher compared with the same quarter of the preceding year.

3.2. Fees and Commissions 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 fees for guarantee approval and other contingent liabilities is accrued in accordance with the period of duration and recognized in the Income Statement proportionally to the duration period.

Net income from fees in the period between January and September 2012 amounts to RSD 3.315.894 thousand which is 2.43% or RSD 78.627 thousand higher compared to the same period last year.

3.3. Income and Expenses Based on Securities

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

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

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

In the observed period of 2012, the net gains from sale of securities to the amount of RSD 83.947 thousand fully relates to the sale of the Republic of Serbia securities, namely: the securities issued in foreign currency – RSD 79.580 thousand, and to the securities issued in Dinars – RSD 4.367 thousand.

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

Dividends received based on investment in the shares of other legal entities are shown as income from dividend at the time of their collection.

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

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

Business transactions in foreign currency were re-stated in the Dinars at mid-exchange rate fixed 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 the 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 at restating the balance sheet items shown in foreign currency, were booked as credited or charged to the income statement as gains or losses based on exchange rate differentials.

Net expenses based on exchange rate differentials in the reporting January-September 2012 period amounted to RSD 9.222.483 thousand, while in the same period of 2011 the Bank recorded a net positive effect of exchange rate differentials at the level of RSD 3.014.509 thousand. This is a direct consequence of the Dinar exchange rate movements against the bucket of the currencies between the two reporting periods under review and management of the Bank's FX position.

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

3.5. Other Operating Income

In the overall other types of income coming to RSD 183.007 thousand, other operating revenues had the largest share of 65.46 %, which mainly refer to the income from renting of the real estate amounting to RSD 78.415 thousand. The percentage share of these revenues in other types of operating income came to 82.25% in the same reporting period of 2011.

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

The Bank classifies its financial assets into the following categories: financial assets at fair value whose effects of the 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 qualification depends on the purpose for which the financial assets have been acquired. 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 proofs of impairment exist. If proofs of impairment exist, a recoverable amount of investment is determined. In order to manage the credit risk adequately and efficiently, the Bank has prescribed by its internal acts special policies and procedures for identifying the bad assets and for managing such assets.

The Bank's management makes estimates of the recoverability of receivables and/or allowance for investments based on individual assessment of risky receivables. Risky receivables are all receivables with delays in repayment. 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 of 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 favor of income. Abolishment of the allowance cannot result in a carrying value of the asset which would be larger than the value such asset would have had if it had not been impaired earlier.

Net expenses based on indirect write-off of loans and provisions amounted to RSD 950.361 thousand, and were reduced by RSD 84.947 thousand compared to the same period of 2011, which resulted from an adequate credit risk management.

3.7. Costs of Wages, Wage Compensations and other Personal Expenses

Costs of wages, wage compensations and other personal expenses of RSD 3.028.487 thousand were by RSD 222.468 thousand or 7.93% higher compared to the same period of the last year, mainly due to the rise of the cost of labour by 7.5% in October 2011 and 7.0% in September 2012, as well as and the rise of average exchange rate of the Dinar against EUR i terms of the wages contracted with the currency clause.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 558.236 thousand increased compared with the period January-September 2011 by RSD 69.535 thousand, or 14.23 %, mainly due to the newly purchased fixed assets and intangible investments during the previous and this year.

3.9. Operating Costs and other Operating Costs

Operating costs and other operating costs shown in the amount of RSD 3.553.291 thousand increased compared to the same period of the last year by RSD 422.517 thousand or 13.50%.

Increase of OPEX came largely as the result of the Bank's development and compliance with the modern technological standards relating the following activities that were undertaken:

- Replacement of VISA and MASTER card with chip cards (increase in the cost of material – chipped plastic)
- Introduction of a back-up location of the Data centre (electronic communication and current maintenance costs)
- Introduction of the new functionality in ATMs and installation of PIN GUARD protection (costs of current ATM maintenance)
- Increase of retail client deposits (deposit insurance costs).

In the Q3 2012, in terms of other operating expenses, the amount of RSD 184.535 thousand was revoked, which resulted from the revised court decision of the Supreme Court of Cassation. This amount had been recognized as the expense in the Q2 based on the previous judgment of the Economic Court of Appeal. The amount in question represented the difference between the adjudged amount according to the ruling of the Economic Court of Appeal and the amount of the provisions for lawsuit expenses in the Bank's business books.

3.10. Income and Expenses Based on Changed Value of Property and Obligations

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

In the period between January and September 2012, income from changed value of assets and liabilities totalled RSD 16.453.538 thousand, and expenses on this basis were at the level of RSD 7.130.068 thousand, which makes a net income of RSD 9.323.470 thousand. The declared net income, unlike net expense of the preceding period (coming to RSD 3.148.603 thousand) was under direct influence of the movements of the Dinar exchange rate for loans and liabilities contracted with the currency clause (EUR, USD and CHF) as a form of protection against the risk and management of the Bank's FX position.

BALANCE SHEET

ASSETS

In the Bank assets, loans and deposits to customers had a dominant share of 57.77% (2011: 56.52%), followed by callable deposits and loans with a share of 12.56% (2011: 20.06%), cash and cash equivalents with a share of 10.42% (2011: 6.25%), and securities (own securities excluded) with a share of 11.81% (2011: 9.31%).

3.11. Cash and Cash Equivalents

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

As at 30 September 2012, cash and cash equivalents totalled RSD 32.084.250 thousand and accounted for 10.42% of total Bank assets (6.25 % on 31 December 2011.) Against 31 December 2011, this item increased by RSD 14.855.280 thousand or 86.22%, and mostly resulted from the increase of assets in the Dinar account because of the raised reserve requirement in Dinars. The raising of the reserve requirement was particularly influenced by the NBS decision, which came to effect on September the 17th 2012, and according to which the level of the required reserve for basis held in foreign currency increased as follows:

From 29% to 32% on FX sources up to two years and

From 17% to 24% to FX sources over two years.

3.12. Callable Deposits and Loans

As at 30 September 2012, callable deposits and loans with the balance at RSD 38.655.778 thousand and the percentage share of 12.56% in total assets, reduced compared to 2011 by RSD 16.604.933 thousand or by 30.05%. Net decrease is the result of the decrease of investments in repo transactions in dinars by RSD 11,500,000 thousand and the decrease in allocated reserve requirement held with the NBS in foreign exchange by RSD 5.104.933 thousand (NBS Decision on Changes in Required Reserve Levels, more details in Note 3.11).

3.13. Loans and Deposits

Loans are shown in the balance sheet at the level of approved loans, less repaid principal and less the allowance based on the assessment of the concretely 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, which is 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 rise index, were revalued in accordance with the concrete agreement for each loan. The difference between the nominal value of outstanding principal and the revalued amount is shown within the loan receivables. The effects of this revaluation are recorded within income and expense based on changed value of property and obligations.

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 to or against the income statement as gains or losses based on exchange rate differentials.

Loans and deposits to customers to the amount of RSD 177.808.973 thousand and with a share of 57.77% in total assets, were higher in 2012 were compared to 2011 by RSD 22.089.766 thousand or 14.18%. The most significant loan increase was registered in the corporate segment – by 18.20% and retail – by 16.80%, whereas there was an upturn with banks by 46.10% because of the increased investing in bonds and T-bills of the Republic of Serbia in foreign currency.

3.14. Securities (Own Shares Excluded)

Investments in securities, own shares excluded, to the amount of RSD 36.357.792 thousand or 11.81% of share against total assets, increased compared to 2011 by RSD 10.719.820 thousand or 41.81% because of increased investments in bonds and treasury bills of the Republic of Serbia in foreign currency.

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

All of the mentioned items account for only 5.09% of total assets, of which the largest percentage relates to fixed assets and investment properties to the amount of 2.40%, other assets 1.36% and other investments 1.10%. Other assets to the amount of RSD 4.154.510 thousand decreased compared to 2011 by RSD 101.933 thousand mainly due to the impact of the decrease of receivables based on purchase-sale of foreign exchange on the foreign exchange market relative to the growth of other categories of other investments.

LIABILITIES

In the period January – September 2012, no major changes took place in the structure of liabilities compared to 31 December 2011. In the structure of liabilities, the highest share of deposits and capital remained, with the total percentage of 90.40% (2011: 90.89%) of total liabilities. Other items account for 9.60% of total liabilities, wherewith the highest portion of this position refers to other liabilities that come to 8.60%.

3.16. Deposits

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

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

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

The most significant share in the structure of liabilities was that of other deposits in the amount of RSD 197.942.017 thousand, which represented 64.31% of total liabilities (2011: 63.40%), followed by transaction deposits in the amount of RSD 32.949.793 thousand with a share of 10.71% (2011:11.42%) and capital in the amount of RSD 47.324.380 thousand and a share of 15.38% (2011:16.07%).

If compared with 2011, the Bank maintained the share of transaction deposits at approximately the same level while other deposits increased to the amount of RSD 23.375.312 thousand. In the structure of transaction deposits, deposits in local currency continued to be dominant with the share of 62.79%, while the remaining 37.21% relates to deposits in foreign currency. In other deposits, the FX deposits are predominant – 84.51%, while the share of Dinar deposits is at 15.49%.

3.17. Provisions

The Bank's provisions of RSD 2.312.621 thousand include the provisions for: coverage of obligations (lawsuits), long-term employees' wages, and provisions for losses under off-balance sheet assets. In the observed period, compared to the 2011, the provisions increased to the amount of RSD 177.185 thousand. The increase mainly refers to the additional allocation of funds for one lawsuit the Bank has won, but the customer filed a complaint with the request for the court proceedings to be reviewed.

3.18. Capital

The Bank's capital comprises the original founding capital, shares of later issues, reserves from the 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 assets of the Bank founders. The founder cannot withdraw the assets invested in the Bank's capital.

As at 30 September 2012, the Bank's capital consists of:

In thousand RSD	2012	2011
Share capital	13.881.010	13.881.010
Issue premium	14.581.543	14.581.543
Capital	28.462.553	28.462.553
Reserves from the profit	14.785.440	11.635.440
Revaluation reserves	771.588	689.620
Unrealized losses based on securities available for sale	(81.266)	(63.940)
Reserves	15.475.762	12.261.120
Accumulated profit	3.386.065	3.551.893
Balance	**47.324.380**	**44.275.566**

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

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

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

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

The Bank is bound to maintain the minimum capital adequacy ratio of 12% established by the National Bank of Serbia, according to the Basel Convention applicable to all banks. The capital adequacy ratio of the Bank as at 30 September 2012, calculated based on the financial statements, is 16.69 % calculated by applying the decisions of the National Bank of Serbia made public in 2012.

Moreover, the Bank is bound to maintain the money-capital portion at the level of EUR 10.000 thousand. As at 30 September 2012, the money-capital portion was above the prescribed level.

The structure of the share capital – ordinary shares as at 30 September 2012 was as follows:

Shareholder Name	% share
Republic of Serbia	42,60
EBRD, LONDON	25,00
ARTIO INT. EQUITY FUND, New York	4,13
Jugobanka AD Beograd in bankruptcy	3,69
Evropa osiguranje AD Beograd in bankruptcy	2,86
INVEJ DOO, Beograd	2,64
Kompanija Dunav, Beograd	1,97
Other	17,11
	100,00

By the Decision of the General Meeting of Bank's Shareholders, No. 6390/1-3 of 25 April 2012, the 2011 profit was distributed. By the said distribution, the amount of 3,150,000 thousand Dinars was allocated to reserves, which contributed to the increase of the reserves between the two periods under review.

The Shareholder Meeting of Komercijalna Banka AD Beograd adopted at its extraordinary session held on 04 April 2012 the Decision on the 25th issue of shares – preference shares convertible into the Bank's ordinary shares by public offer, without the obligation of publishing a prospectus, for the qualified investor – the Republic of Serbia, in order to increase the core capital.

The term specified for subscription and payment of convertible preference shares was April the 30th 2012. Since the issue was not realized in the term specified, it was annulled.

A new, XXVI shares issue followed – preferred shares that can be converted into ordinary shares of Komercijalna Banka AD Beograd by public offer, without the obligation to publish a prospectus, for a qualified investor – the Republic of Serbia and in order to increase the core capital.

This Issue was successfully realized on October the 30th 2012 by payment of EUR 100 million in Dinar equivalent of RSD 11.571.997 thousand.

4. RECEIVABLES FROM AND OBLIGATIONS TO SUBSIDIARIES

4. A. Balance as at 30 September 2012

RECEIVABLES

Subsidiary	Loans&advances	Interest & fees	Other assets	Allowances	Net BS exposure.	Off-balance	Total
1. Kom. banka AD Budva	5.697	920	-	-	6.617	-	6.617
2. Kom.banka AD Banja Luka	2.997	-	-	-	2.997	920.256	923.253
3. Kombank INVEST	-	-	-	-	-	200	200
TOTAL:	**8.694**	**920**	**-**	-	**9.614**	**920.456**	**930.070**

LIABILITIES

Subsidiary	Deposits & loans	Interest & fee	Other liabil.	Total
1. Kom. banka AD Budva	557.535	-	1.606	559.141
2. Kom.banka AD Banja Luka	13.398	-	-	13.398
3. Kombank INVEST	10.551	8	-	10.559
TOTAL:	**581.484**	**8**	**1.606**	**583.098**

INCOME AND EXPENSES for the period 01.01 - 30.09.2012

Subsidiary	Interest income	Fee and commission income	Interest expense	Fee and commissi on expense	Net income / expense
1. Kom. banka AD Budva	180	1.306	-	(627)	859
2. Kom.banka AD Banja Luka	1.478	669	(514)	(379)	1.254
3. Kombank INVEST	-	106	(1.044)	-	(938)
TOTAL :	**1.658**	**2.081**	**(1.558)**	**(1.006)**	**1.175**

On the grounds of the transactions with the subsidiaries, Komercijalna Banka ad Beograd achieved net FX losses to the amount of RSD 14.890 thousand.

4. B. Balance as at 31 December 2011

RECEIVABLES

Subsidiary	Loans&advances	Interest and fees	Allowances	Net BS exposure	Off-balance	Total
1. Kom. banka AD Budva	5.061	780	-	5.841	-	5.841
2. Kom.banka AD Banja Luka	2.727	-	-	2.727	837.127	839.854
3. Kombank INVEST	6	-	-	6	194	200
TOTAL:	**7.794**	**780**	-	**8.574**	**837.321**	**845.895**

LIABILITIES

Subsidiary	Deposits and loans	Interest and fees	Other liabil.	Total
1. Kom. banka AD Budva	185.081	-	1.461	186.542
2. Kom.banka AD Banja Luka	3.802	-	-	3.802
3. Kombank INVEST	16.683	43	-	16.726
TOTAL:	**205.566**	**43**	**1.461**	**207.070**

INCOME AND EXPENSES for 01.01 - 30.09.2011

Subsidiary	Interest income	Fee and commission income	Interest expense	Fee and commission expense	Net income / expense
1. Kom. banka AD Budva	214	415	(2.717)	(113)	(2.201)
2. Kom.banka AD Banja Luka	1.055	705	(32.195)	(151)	(30.586)
3. Kombank INVEST	-	146	(1.549)	-	(1.403)
TOTAL:	**1.269**	**1.266**	**(36.461)**	**(264)**	**(34.190)**

On the grounds of the transactions with the subsidiaries, Komercijalna Banka ad Beograd registered net FX gains to the amount of RSD 154.642 thousand.

5. RISK MANAGEMENT

The Bank has recognized the process of risk management as the key element of business management, given that exposure to risks arise from all business activities, as inseparable part of bank activities managed through identification, measurement, mitigation, monitoring and control and reporting, as well as through the establishment of risk limits and reporting in accordance with the strategies and policies.

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

The Bank defines risk profile for risk assumption, on the basis of the capacity to cover risks to which it is or may be exposed. The risk assumption represents the core substance of the bank business activities and has an immense impact on continuous profitable business of the Bank.

Using a Strategy for risk management and Strategy for managing capital, the Bank has set the following objectives within the system of risk management: minimizing adverse effects on the financial result and the capital with respect to defined frames of accepted risk level, maintaining the required level of capital adequacy, development of the Bank activities according to the business abilities and development of the market in order to achieve competitive advantages.

Risk management system

Risk management system is defined by the following enactments:

- Strategy for risk management and Strategy for managing capital,
- Risk management policies,
- Risk management procedures;
- Methodologies for individual risk management,
- Other.

Strategy for risk management defines:

- long-term goals, determined by the business policy and strategy of the Bank, as well as preference to certain risks according to that goals;
- basic principles of assumption and management of risks;
- basic principles of the Bank's capital adequacy internal assessment process;
- overview and definitions of all the risks the Bank is or may be exposed to.

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

- organizing business activities for a separate risk management organizational unit;
- functional and organizational separation of risk management activities from regular business activities of the Bank;
- comprehensiveness of risk management;
- effectiveness of risk management;
- cyclicality of risk management;
- development of risk management as strategic issue;
- risk management represents a part of business culture.

Managing policies for certain types of risks are closely defined by:

- the way of organizing the Bank risk management process and clear delineation of employees' responsibilities within all phases of that process;
- the way of assessment of the Bank's risk profile and methodology for identifying and measuring, namely risk assessment;
- ways to monitor and control risks, and establishing a system of limits and limit types used by the Bank and its structure;
- the measures for mitigation of risk and rules for applying those measures;
- the way and methodology for conducting the process of internal assessment of capital adequacy of the Bank;
- principles of operating of the internal control system;
- frame and frequency of stress testing, as well as acting in cases of unfavorable results of stress tests.

Using procedure for risk management, the Bank defines the process of risk management and competencies and responsibilities of all organizational units of the Bank in the system of risk management.

Using individual methodologies, the Bank has prescribed in details methods and approaches used in the system of risk management.

Competencies

The Managing Board shall be responsible for establishing a uniform system of risk management and monitoring the system, adopting strategies and policies for risk management and capital management strategy, establishing a system of internal controls, supervision of the activities of the Executive Board, as well as the implementation of the process of internal assessment of capital adequacy.

The Executive Board shall be responsible for the implementation of strategies and policies for risk management and capital management strategy, the adoption and analysis of the effectiveness of risk management procedures, which more closely define the process of identification, measurement, mitigation, monitoring and control and reporting on the risks to which the Bank is exposed to, and shall report to the Managing Board on the effectiveness of application of defined risk management procedures.

The Audit Committee shall be responsible and liable for analyzing and monitoring the implementation and adequate enforcement of the adopted strategies and policies for risk management and internal control system. At least once a month, the Audit Committee reports to the Management Board on its activities and identified irregularities, and suggests methods for their removal.

The Asset and Liability Committee shall be responsible and liable for monitoring Bank exposure to risks arising from the structure of its balance sheet receivables, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Loan Board shall decide on credit applications within the framework determined by the regulations of the Bank, analyze the Bank exposure to credit, interest rate and currency risk and carry out internal audit findings under the authorization of the Board, and also propose measures to the Executive Board of the Bank.

Committee for debt recovery shall be responsible and liable for the management of high-risk loans, make decisions on risk assets write-off up to determined limit for making decisions and propose placement write-offs to the Executive Board and Managing Board for decision that extend determined limits.

Risk management function shall define and propose for adoption to the Managing Board, strategy and risk management policies, to the Executive Board procedures and methodologies of risk management, and identify measures, mitigates, monitors and controls, and reports on the risks to which the Bank is exposed to in its operations. It is also responsible for developing models and methodologies for all phases of risk management and reporting to competent authorities of the Bank.

Sector for asset management shall be responsible for asset and liquidity management, Bank asset and liability management, their overall financial structure, participating in the formation of interest rates policy and implementing transfer pricing policies.

Compliance department of the Bank (Compliance) is required at least once a year to identify and assess the main risks of compliance and propose plans to manage those risks, on which prepares reports and submits them to the Executive Board and the Audit Committee.

Internal Audit and *Audit Committee* shall conduct an independent evaluation of the risk management system, execute control of the Bank business operation regularity and efficiency of functioning the internal control system.

Risk management process

The Bank measures or assesses risks identified in its business activities, on the regular bases. Measurement involves the use of qualitative and quantitative measurement methods that allow identification of changes in the risk profile and risk assessment.

For all the identified risks the Bank determines their significance, which is based on a comprehensive assessment of the risks inherent to certain activities, products, processes and activities of the Bank.

Risk mitigation involves diversification, transfer, reduction and/or avoidance of risk and the Bank implements it in accordance with the risk profile and a tendency for risk.

Risk monitoring and control is based on limits established by the Bank, which depend on the business strategy and market environment, as well as the level of risk that the Bank is willing to accept.

The reports on risk management are regularly submitted to: Management Board, Executive Board, Audit Committee, Asset and Liability Committee and Loan Board, containing all the information necessary to assess risk and make decisions on the risks of the Bank.

Types of risk

The Bank in its business operations is particularly exposed to the following risks: credit and risks associated with it, liquidity risk, market risk, operational risk, investment risk, exposure risk and country risk, as well as all the other risks that may arise during the regular course of business activities of the Bank.

5.1. CREDIT RISK

Credit risk is the risk of possible occurrence of adverse effects on the financial result and equity of the Bank, due to default by the debtor to the Bank. The Bank credit risk is determined by the debtor's creditworthiness, his regularity in the execution of obligations to the Bank, as well as the quality of collateral.

Within the credit risk frame the Bank monitors the following:

- **Default risk** – the risk of loss that may occur if debtor fails to settle his obligation to the Bank;
- **Downgrade risk** – the risk of loss that may arise if there is a deterioration in the risk level of debtor (debtor credit rating downgrades);
- **Risk of change in the value of assets** – risk of loss that may arise on the assets positions if there is a decrease in market value related to the value of the assets purchased;
- **Credit and currency risk** represents the possibility that the Bank will suffer from loss due to default of the debtor within agreed terms, arising from the negative impact of dinar exchange rate changes to the financial condition;

- **Concentration risk** is the risk that directly or indirectly results from the Bank exposure to the same or a similar risk factor or type of risk, such as: exposure to a single person or group of related persons, industries, geographic areas, types of products and activities, credit protection instruments, financial instruments, goods...
- **Exposure risk** is the risk that may result from the Bank exposure to a single person, group of related persons or persons related to the Bank;
- **Country risk** is the risk associated with the debtor's country of origin and represents the risk of occurrence of adverse effects on the financial results and the Bank equity due to the inability to collect receivables from debtors as a result of economic or social conditions in the country of the debtor.

In addition to the above, the Bank monitors the following risks related to the credit risk:

- **Residual risk** is the risk that the credit risk mitigation techniques will be less effective than expected, and that their use will insufficiently affect the reduction of risk to which the Bank is exposed to.
- **Decrease of the receivables value risk** is the risk of possible arising of adverse effects on the financial results and equity of the Bank by decreasing the value of purchased receivables due to the cash or non-cash obligations of the prior creditor to debtor.
- **Settlement/delivery risk** is the risk of possible adverse effects on the financial results and equity of the Bank, arising from unsettled transactions or because of non-performance of free delivery transactions by the counterparty, on the agreed date of settlement/delivery.
- **Counterparty risk** is the risk of possible adverse effects on the financial results and equity of the Bank, based on the failure to pay the obligations by the counterparty in the transaction before the final settlement of the cash flow transaction or monetary settlement obligations under the transaction.

In accordance with the scope, type and complexity of activities performed, the Bank organized the process of credit risk management and clearly delineated the responsibilities of employees at all stages of the process. Organizational model of credit risk management system of the Bank ensures an adequate communication, information sharing and cooperation at all organizational levels, and also provides a clear, operational and organizational separation of the functions of an independent risk management and support activities on the one side, and the risk-taking activities and division of duties, competencies and responsibilities on the other. The Bank has also established an adequate information system which includes that the persons involved in the credit risk management system are being fully informed, using appropriate IT support and identifying the frequency of reporting to the Bank management.

The goal of credit risk management is to minimize the adverse effects of credit risk on the financial results and equity of the Bank, based on balance sheet and off-balance sheet placements and based on the business activities with the other contracting party for the positions kept in the Banking book and the Trading book.

The acceptable level of credit risk of the Bank is in compliance with defined Risk management strategy and depends on the structure of the Bank portfolio, based on which it enables limitation of the negative impact on the financial results and minimizing capital requirements for credit risk, settlement/delivery and counterparty risk in order to maintain a capital adequacy ratio at the acceptable level.

The basic principles of the credit risk management are:

- credit risk management at the level of individual placements and on the level of the Bank portfolio;
- maintaining the level of credit risk which minimizes the negative impact on the financial results and capital;
- ranking of the placements according to their riskiness;
- operations in accordance with the best practices for approval of placements;
- providing adequate controls to manage credit risk.

In order to manage credit risk, the Bank seeks to do business with good credit capacity customers and obtain adequate collaterals. The Bank evaluates each customer's creditworthiness at the time of submitting the request and performs regular and extraordinary monitoring of debtors, loans and collateral, in order to be able to take appropriate action for collecting debts.

Identification of credit risk involves analyzing all indicators, which leads to the occurrence and the increase of exposure to the credit risk. The Bank comprehensively and timely determines the current level of the credit risk exposure and assesses the causes of credit risk exposure arising from the incurred changes in the market, as well as on the basis of the introduction of new products and business activities.

The Bank performs quantitative and/or qualitative measurement, namely evaluation of the identified credit risk. Credit risk measurement process is based on two parallel approaches:

- regulatory approach – the process of loan impairment and estimate of provisions for losses on off-balance sheet positions under International accounting standard 39 and International accounting standard 37 and classification of debtor claims according to regulations the National Bank of Serbia;
- internal approach – measurement of the risk level for individual loans based on internal rating system.

The rating system is not only an instrument for shaping individual decisions and assessing the level of risk of individual investments, but the basis for portfolio analysis, support in defining the limits and approval of the Bank placements, as well as support to the loan impairment procedure and assessment of provisions for losses on off-balance sheet items, in order to rank risk level of placements and express the real value of receivables. Internal rating system is subject to regular audit and improvement.

When analyzing credit risk in addition to the Bank internal rating system the Bank also uses the principles prescribed by the National Bank of Serbia, which require classification of each placement based on the prescribed framework and calculation of reserve for credit risk assessment. Provisions for estimated losses represent protection against the possible negative consequences if invested funds are not returned on maturity date.

In order to maintain the credit risk to an acceptable level, the Bank has defined mitigation process which involves:

- defining the limit of exposure;
- decision-making system;
- defining and application of measures for credit risk mitigation.

Exposure limits in respect to individual debtors are based on assessment of creditworthiness, while limit exposures based on the portfolio level are directed to limit the concentration of exposure in the portfolio. The Bank continuously controls the movement of credit risk within a defined risk profile.

The basic techniques to reduce the risk are mitigation, diversification, transfer and avoidance, which are engaged in order to minimize losses.

Using the process of monitoring credit risk, the Bank has defined the rules relating to liability, frequency and reporting on the implementation of measures adopted to minimize credit risk.

Monitoring the quality of placements at the level of individual debtor is primarily based on providing of updated information on the financial condition and creditworthiness of the borrower and the market value of the collateral, while monitoring of credit risk at portfolio level is performed by identifying changes on the level of client groups of certain risk level, placement, collateral, required reserves for expected and unexpected losses, in order to determine and manage the condition and quality of asset. The Bank also provides ongoing monitoring and checks up the adequacy of the process of ranking placements into risk categories according to the degree of collectability.

Control of credit risk implies the process of continuous adjustment of the business operations with the defined limit system on daily and monthly basis, as well as in conditions when the exposure to credit risk tends to move to the upper limit of a defined risk profile, or during the introduction of new products and business activities.

In order to maintain protection against the risk of default in business activities with the clients, the Bank shall take the following measures to regulate receivables: rescheduling or restructuring, settlement, receipt of goods or property in order to collect receivables for the Bank, sale of receivables, concluding agreements with interested third parties, initiation of legal proceedings and other measures.

The Bank shall approve rescheduling and restructuring of debts to the clients with specific problems in performing business operations. If taken measures which regulate placements or enforced collection legal proceedings did not give the expected results, or when there is no possibility to pay dues in full, a proposal is initiated for a permanent write-down of the remaining Bank receivables. Special role in making decisions on collecting risk placements has the Loan Board.

Aside from the credit exposure the Bank also has an off-balance sheet exposures (different types of payment guarantees and performance guarantees, sureties, letters of credit) based on which the Bank has a potential obligation to make payments on behalf of third parties. For off-balance sheet exposures the Bank uses the same control processes and procedures used for credit risk.

Reporting on credit risk includes a system of internal and external reporting, performed on a monthly basis and according to established dynamics, pursuant to defined reporting system.

5.1.1. Total exposure to credit risk

The biggest credit risk for the Bank arises from the realized credit line arrangements, but the Bank is also exposed to the risk arising from off-balance sheet positions originating from potential and assumed obligations. Total exposure to credit risk is shown in the gross amount before the effects of mitigation based on the amount of impairment.

Summary of assets (gross) **In thousand dinars**

	Classifying assets		Non-classifying assets		Total	
	30.09.2012.	31.12.2011.	30.09.2012.	31.12.2011.	30.09.2012.	31.12.2011.
Summary of assets	**198.596.211**	**176.157.075**	**43.499.858**	**57.852.717**	**242.096.069**	**234.009.792**
Revocable deposits and credits	-	-	38.655.778	55.260.711	38.655.778	55.260.711
Receivables from interests, fees, sales, changes in fair value of derivatives and other receivables	3.017.531	2.766.031	7.023	61.441	3.024.554	2.827.472
Granted loans and deposits	186.835.930	165.176.321	2.672.656	1.233.132	189.508.586	166.409.453
Other placements	6.006.100	4.580.028	430.489	401.452	6.436.589	4.981.480
Other assets	2.736.650	3.634.695	1.733.912	895.981	4.470.562	4.530.676
Other assets	**11.949.731**	**4.863.737**	**62.752.890**	**44.201.587**	**74.702.621**	**49.065.324**
Cash and cash equivalents	10.003.635	4.058.814	22.080.615	13.170.156	32.084.250	17.228.970
Securities	1.246.210	170.426	35.113.001	25.472.156	36.359.211	25.642.582
Participation in capital	699.886	634.497	5.559.274	5.559.275	6.259.160	6.193.772
Off-balance items	**33.396.681**	**32.402.458**	**52.866**	**57.005**	**33.449.547**	**32.459.463**
Payment guarantees	8.698.814	7.145.564	-	-	8.698.814	7.145.564
Performance guarantees	7.718.568	6.812.395	159	484	7.718.727	6.812.879
Sureties and draft acceptance	65.025	77.853	-	-	65.025	77.853
Irrevocable Letters of credit	906.275	713.306	-	-	906.275	713.306
Assumed irrevocable obligations	15.597.918	16.324.350	51.740	56.521	15.649.658	16.380.871
Other	410.081	1.328.990	967	-	411.048	1.328.990

5.1.2. Risk of asset quality changes

The Bank asset quality is measured by the degree of exposure to certain risk categories according to the criteria of the internal rating system. The internal rating system considers both quantitative and qualitative parameters for determining the rating of the debtor. The rating scale consists of five risk categories, which are further divided into 17 subcategories. The rating scale is used as a unique method of assigning rating which ensures that clients with the same credit rating have the same characteristics and the same probability of not meeting its obligations, in part or in full for a period of one year. The basic parameters determining the credit risk subcategory rating are calculated and monitored on a monthly basis.

Low risk level means performing business operations with clients with good credit capability acceptable for the Bank (rating categories 1 and 2), an increased level of risk is for business activities with the clients with difficulties in business operations that may adversely affect the settlement of liabilities and whose operations are monitored intensively (category rating 3) and high level of risk is applied on the clients with the negative business results and poor credit history (risk category 4 and 5).

The Bank protects itself from changes in asset quality risk through continuous monitoring of clients business operations, identifying changes that may arise from deteriorating state of debtor, delays in repayment or changes in the environment, as well as providing adequate collateral.

5.1.3. Risk of change in the value of assets

Impairment of investments aims at providing a reasonable, careful and timely determination of losses due to impairment of loans, as well as interventions for potential liabilities, in order to protect the Bank equity in the period when the loss is definitely confirmed (realized) due to the inability to collect the agreed amount or by outflow of funds for the settlement of possible liabilities.

The main elements in the assessment of impairment of loans are as follows: delay in payment of principal or interest, difficulties in cash flow of the borrower, decrease in credit rating or change of the original terms of the contract, and other.

Impairment of investments is based on estimates of expected future cash flows from business operations of clients, as well as the realization of collateral in case it is assessed that the loan will be repaid in real terms from those funds.

Assessment of balance sheet receivables impairment

The Bank assesses impairment of receivables through an individual or collective assessment.

Individual assessment
The Bank assesses adjustment for each individually significant placement and on that occasion are taken into account the financial position of the borrower, the sustainability of the business plan, its ability to improve its performance in the event of financial difficulties, the projected income, the availability of other types of financial support and the value of collateral that can be implemented, as well as timing of the expected cash flows.

Collective assessment
Adjustments of losses are assessed collectively for loans that are not individually significant and for individually significant loans where there is no objective evidence of individual impairment. This assessment is carried out by groups that are formed on the basis of internally prescribed methodology, based on the internal rating system and on a monthly basis. Establishing a collective evaluation is based on the migration of risk categories into the status of default, according to the type of customer or product. The obtained migration percentages are being corrected for performed debt collection.

Impairment of credit decreases the value of credit and it is recognized as an expense in the Income statement.

Assessment of possible loss under off-balance items

Determining the potential loss on off-balance sheet items (contingency) is made when it is estimated that there is enough certain expectation that there will be an outflow of funds to settle the potential liability.

When estimating provisions for potential losses on off-balance sheet items, means of foreclosure are recognized if there is absolute certainty that an outflow of funds for contingent liabilities is to be paid from the collateral.

Summary of individual and collective impairment of balance sheet assets In thousand dinars

	Credits and placements		Participation in capital	
	30.09.2012.	**31.12.2011.**	**30.09.2012.**	**31.12.2011.**
I. Individual adjustment of value				
Gross placement	46.417.763	37.454.350	6.259.160	6.193.772
Adjustment of value	13.104.483	11.811.811	370.171	370.188
Book value	33.313.280	25.642.539	5.888.989	5.823.584
II. Collective adjustment of value				
Gross placement	139.208.937	122.228.891	-	-
Adjustment of value	3.494.793	3.476.069	-	-
Book value	135.714.144	118.752.822	-	-
III. Due but not adjusted placements				
0-30 days	5.487.821	91.047	-	-
31-60 days	12.483	13.381	-	-
61-90 days	202	7.379	-	-
91-180 days		-	-	-
over 180 days		-	-	-
Book value	5.500.506	111.807	-	-
IV. Unmatured not adjusted placements				
Book value	7.469.004	16.362.027	-	-
Total book value gross	**198.596.211**	**176.157.075**	**6.259.160**	**6.193.772**
Total adjusted value	**16.599.276**	**15.287.880**	**370.171**	**370.188**
Total book value net	**181.996.935**	**160.869.195**	**5.888.989**	**5.823.584**
Total unclassified assets	**43.499.858**	**57.852.717**		
TOTAL	**242.096.069**	**234.009.792**		
Included reprograms/restructured placements	**31.379.873**	**27.545.212**		

5.1.4. Concentration risk

The Bank manages the exposure to concentration risk by limiting and monitoring exposure toward specific groups with the same or similar risk factors. Measuring and mitigating exposure to the concentration risk is achieved through the established system of limits, which includes internal limits of exposure to economic sectors/industries, types of products, geographic areas, 20 largest exposures and similar. Establishment of appropriate exposure limits is the basis for the control of concentration risk in order to diversify the loan portfolio.

Depending on general economic movements, movements in individual sectors and geographical areas, the Bank diversifies investment in industrial sectors that are resistant to the impact of adverse economic developments.

5.1.5. Means of protection against credit risk (collateral)

In order to protect itself against the exposure to credit risk, in addition to regular monitoring of clients, the Bank obtains security instruments (collaterals), which provide payment of receivables and minimize credit risk. Depending on the assessment of the possibilities of settlement of contractual obligations, the level of placement cover is defined, so in the event of default of the debtor, by activating collaterals, the receivables could be collected in real. The value and type of required collateral depends on the assessment of credit risk.

As standard bank collateral the Bank as well obtains from customers contractual authorization and drafts, while as additional instrument, depending on the assessment of credit risk, other placements are contracted:

- for commercial credits – pledge of movable and immovable assets (mortgages), deposits, banking, corporate and government guarantees, warrants, pledged securities...
- for retail credit – mortgages, deposits, joint debtor warrants, insurance issued by the national insurance corporation for insuring housing credits...

During appraisal of immovable or movable property pledges, the Bank engages licensed appraisers in order to subject the potential risk of unrealistic estimate to the lowest possible level. Real estate, goods, equipment and other movable property that are the subject of the pledge must be insured by an insurance company acceptable to the Bank, with a policy endorsed in favor of the Bank.

The Bank policy is to collect the collateral and use the funds to reduce or pay off debt. Assets acquired by debt collection the Bank shall not use for business purposes.

Fair value of collateral

In thousand dinars

	Credits and placements	
	30.09.2012.	**31.12.2011.**
I. Individual adjustment of value		
Mortgages	57.301.907	53.409.037
Deposits	80.985	75.131
Guarantees	3.063.668	637.778
Pledged securities	12.319.644	8.193.981
Hand pledge	13.024.787	11.343.456
Other	18.653.870	7.530.031
Total	**104.444.861**	**81.189.414**
II. Collective adjustment of value		
Mortgages	193.517.994	174.903.129
Deposits	2.624.480	2.684.368
Guarantees	14.122.904	14.856.109
Pledged securities	47.947.249	29.321.105
Hand pledge	23.120.674	21.980.106
Other	48.463.991	45.623.920
Total	**329.797.293**	**289.368.737**
III. Due but not adjusted placements		
Mortgages	530.795	1.519.846
Deposits	33.304	58.390
Guarantees	12.362	1.249
Pledged securities	1.946	495.893
Hand pledge	30.103	136.963
Other	614.457	751.232
Total	**1.222.967**	**2.963.573**
IV. Unmatured not adjusted placements		
Mortgages	135.254	314.175
Deposits	1.150	37.043
Guarantees	-	204
Pledged securities	123.340	14.970
Hand pledge	256.565	190.915
Other	472.329	833.652
Total	**988.639**	**1.390.959**
Total fair value	**436.453.759**	**374.912.683**

5.2. LIQUIDITY RISK

The Bank in its operations comply with the basic principles of liquidity, achieving sufficient level of funds to cover liabilities incurred in the short term, namely respects the principle of solvency by establishing the optimal financial leverage (the ratio between equity and liabilities) and the formation of sufficient level of liquidity reserves which do not threaten the achievement of the planned return on capital.

Liquidity risk, as the possibility of occurrence of certain negative events with adverse effects on the financial results and Bank equity, arises from the inability of the Bank to meet its due obligations. Liquidity risk may occur in the form of risk resources and market liquidity risk. Liquidity problem in terms of resources relates to the structure of liabilities and obligations, and is expressed through inadequate financial leverage, a significant share of unstable resources, short-term resources or their concentrations. On the other hand, liquidity risk is expressed through a deficit in reserves and difficulty or impossibility to obtain liquid funds at reasonable market prices.

The Bank has established appropriate organizational structure, which is made to clearly delineate process of undertaking liquidity risk from its management processes. The primary role in the management of liquidity risk is performed by the Liquidity Board and Asset and Liability Committee within their competencies, as well as other relevant committees, whose decisions may affect the Bank exposure to this risk.

In order to minimize liquidity risk the Bank:

- diversifies fund resources, by currencies and maturity;
- forms sufficient level of liquidity reserves;
- manages monetary funds;
- monitors future cash flows and liquidity on a daily basis;
- manages market resources;
- limits primary resources of credit risk that have the most significant impact on liquidity risk (exposure to banks to which free monetary funds are invested);
- defines and performs periodical tests of he Plan for liquidity management in crisis situations.

Process of liquidity risk management is carried out through the identification, measurement, mitigation, monitoring, control and reporting on liquidity risk.

Identification of liquidity risk means comprehensive and timely identification of the causes leading to occurrence of liquidity risk and implies determination of the current exposure to the liquidity risk, as well as the liquidity risk exposure based on new products and business activities.

Measurement, namely liquidity risk assessment is quantitative and/or qualitative assessment of identified liquidity risk, using the following methods:

- GAP analyses;
- Ratio analyses;
- Stress test.

Mitigation implies maintaining of liquidity risk at the level acceptable for the risk profile of the Bank, through defining of the limit system, which includes regulatory and internal limits and timely measures to reduce risk, as well as operations within these limits.

Control and monitoring of liquidity risk includes the process of compliance with the externally and internally set limits, as well as monitoring of defined measures for reduction of exposure to liquidity risk of the Bank. Liquidity risk control implies control at all levels of liquidity risk management as well as the independent control system which is implemented by organizational units responsible for internal audit and compliance monitoring.

Reporting on liquidity risk includes the system of internal and external reporting, performed on a daily basis and under established dynamics, in accordance with defined system.

The Bank harmonizes its business activities with the prescribed regulatory liquidity ratio on a daily basis. Regulatory defined limits for this indicator are: 0.8 calculated for a single working day; minimum 0.9 for no more than three consecutive working days, or at least one day as the average of all the working days in a month.

Regulatory prescribed liquidity indicator:

	30.09.2012.	31.12.2011.
Per day	3,02	2,91
Average for the period	2,52	2,25
Maximum for the period	3,39	3,40
Minimum for the period	1,67	1,34

During 2012 the liquidity indicator ranged considerably above defined limits.

Compliance with internally defined liquidity limits:

	Limiti	30.09.2012.	31.12.2011.
GAP up to 1 month/Total assets	Max (10%)	9,97%	9,03%
Cumulative GAP up to 3 month/Total assets	Max (20%)	1,36%	2,06%

The Bank defined internal limits of the liquidity GAPs by maturity dates and significant currencies.

The Bank management believes that adequate diversification of the portfolio of deposits by number and type of depositors, as well as the past experience of the Bank, provide good pre-condition for the existence of a stable and long-term deposit base, namely on that basis no significant inflows are expected. The Bank, in addition, defined the appropriate Business plan, by which in the future, intends to make further diversification and the establishment of more stable deposit base and optimal capital and liabilities structure.

With the stability of the business activities from the liquidity aspect goes the fact that the Bank has sufficient level of liquidity reserves to respond to increased level of liquidity crisis, as evidenced by the results of stress testing and testing of the Plan for managing liquidity in crisis situations.

5.3. MARKET RISK

Market risk represents the possibility of incurring the adverse effects on the financial results and Bank equity due to changes in market variables and it includes interest rate risk in the Banking book, foreign exchange risk for all business activities performed and the price risk in Trading book.

The Bank is exposed to the acceptable interest rate risk in the Banking book and foreign exchange risk, while price risk in terms of material significance is not especially considered in these Notes, although it manages that risk, considering that participation of Trading book in total business operations of the Bank on 30th September 2012 amounts to 0.06%.

The Bank has established appropriate organizational structure, by which is made clear delineation of processes of taking over market risks from the process of its management. Primary role in the process of market risk management is carried out by the Asset and Liability Committee as well as other relevant committees, whose decisions may affect the Bank exposure to this risk.

5.3.1. Interest rate risk in Banking book

The Bank is exposed to interest rate risk on positions in the Banking book, manifested through the possibility of occurrence of adverse effects on the financial result and Bank equity due to changes in interest rates.

The main objective of interest rate risk management is to maintain an acceptable level of interest rate risk exposure in terms of the impact on the financial results, by keeping adequate policy of temporal discrepancy between maturity and new price determination (repricing) of interest rates, compliance with the appropriate resources with placements according to the type of interest rate and maturity, as well as the projection of movements in the yield curve on foreign and domestic market. Primarily, the Bank manages the margin of internal yields through the cost of loans and deposits, focusing on the interest margin.

The Bank especially considers the impact of changes in interest rates and the structure of interest bearing assets and liabilities in terms of maturity and new price determination (repricing) of interest rates and currency structure and manages their impact on the economic value of equity.

The process of interest rate risk management is carried out through identification, measurement, mitigation, monitoring, controlling and reporting on the interest rate risk.

Identification of the interest rate risk involves comprehensive and timely identifying the causes leading to risk occurrence and involves determining the current exposure and exposure to liquidity risk on the basis of new products and business activities.

Measurement, namely interest rate risk assessment is a quantitative and/or qualitative assessment of identified interest rate risk, using the following methods:

- GAP analyses;
- Ratio analyses;
- Duration;
- Economic value of equity (EVE);
- Stress test.

Mitigation of interest rate risk implies maintaining the risk at the level acceptable for the risk profile of the Bank. Mitigation of interest rate risk implies a process of defining the limit system for the Bank exposure to the interest rate risk and undertaking and implementing measures for mitigation of interest rate risk. Control and monitoring of interest rate risk includes the process of compliance with set up system of limits, as well as monitoring of defined measures for reduction of exposure to interest rate risk of the Bank. Liquidity risk control implies control at all levels of management as well as the independent control system which is implemented by authorities responsible for internal audit and compliance monitoring.

Reporting on the interest rate risk implies clearly determined internal reporting system for reporting to the relevant committees and the Bank management on interest rate risk management.

Internal limits are determined on the basis of internal reports about the interest rate GAP, which include all positions of the balance

Compliance with internally defined limits for interest rate risk:

	Limiti	30.09.2012.	31.12.2011.
Relative GAP	Max 15%	(5,33%)	(7,23%)
Coefficient of disparity	0,75 – 1,25	0,93	0,91
EVE	Max 20%	8,86%	10,53%

In 2012 the interest rate risk indicators were moving within the internally defined limits.

The Bank also defines the internal limits of exposure to interest rate risk in order to limit the negative impact on the financial results and Bank equity. The impact on the financial result is limited to the period up to 1 year by the limits defined in terms of maturity and new price determination (repricing) of interest rates on significant currencies. Impact on equity is limited by the maximum value of the economic value of equity.

The Bank management believes that adequate compliance of positions by the type of interest rate and the period of new price determination provides a good pre-condition for the existence of the required financial result while preserving the economic value of equity.

5.3.2. Foreign exchange risk

The Bank is exposed to foreign exchange risk, which is manifested through the possibility of occurrence of adverse effects on the financial results and equity due to changes in cross-currency relations, changes in the value of the domestic currency related to the foreign currencies or changes in the value of gold and other precious metals. All other positions are exposed to the foreign currency risk and included in the Banking book and the Trading book in foreign currency and gold, as well as the dinar positions indexed to foreign currency clause.

In order to minimize exposure to foreign exchange risk the Bank diversifies the currency structure portfolio and currency structure of liabilities, matching open positions in individual currencies, while respecting the principles of maturity transformation of funds.

The Bank has established appropriate organizational structure, by which is made clear delineation of the process of taking over the foreign exchange risk from its management processes. Primary role in the management of foreign currency risk is carried out by the Asset and liability Committee under its competencies, as well as other relevant committees, whose decisions may affect the Bank exposure to this risk.

The process of foreign exchange risk management is carried out through identification, measurement, mitigation, monitoring, controlling and reporting on the foreign exchange risk.

For identification of the foreign exchange risk the Bank comprehensively and timely identifies the causes leading to occurrence of the foreign exchange risk and involves determining the current exposure to foreign currency risk and exposure to foreign exchange risk on the basis of new products and business activities, at the positions kept in the Banking book and Trading book.

Measurement, namely foreign exchange risk assessment, is an quantitative and/or qualitative assessment of identified foreign exchange risk, using the following methods:

- GAP analyses and indicator of foreign exchange risk;
- VaR (Value at Risk);
- Stress test;
- Back-testing.

Mitigation of foreign exchange risk implies maintaining the risk at the level acceptable for the risk profile of the Bank through setting up a transparent limit system for defining measures for mitigation of foreign exchange risk.

Control and monitoring of foreign exchange risk includes the process of monitoring and supervision of compliance of positions with internally and externally defined limits, as well as monitoring defined and undertaken measures. By continual monitoring and control of foreign exchange risk during one day, it is ensured undertaking of timely measures in order to sustain foreign currency risk within the frame of defined limits. Foreign exchange risk control implies control at all levels of management as well as the independent control system which is implemented by organizational units responsible for internal audit and compliance monitoring.

Reporting on the foreign exchange risk implies system for internal and external reporting conducted on daily basis and under determined dynamics, in accordance with defined system.

The Bank harmonizes its business activities with regulatory prescribed indicator of foreign exchange risk, which represent the relation between total opened foreign currency positions in gold related to the regulatory capital.

Survey of total risk foreign currency position and regulatory defined indicator of foreign exchange risk:

	30.09.2012.	31.12.2011.
Total risk foreign currency position	509.011	452.801
Indicator of foreign exchange position	1,65%	1,68%
Regulatory prescribed limits	20%	20%

In 2012 the Bank had all the indicators of business operations complied with the standard values.

5.4. OPERATIONAL RISK

Operational risk is the risk of possible adverse effects on the financial results and Bank equity due to failure (intentional and unintentional) caused by employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to the occurrence of unforeseen external events.

Operational risk is defined as an event occurring as a result of inadequate or failed internal processes, procedures and systems of employees and system or systemic and other external events, internal and external fraud, employment practices and workplace safety, claims from clients, products distribution, fines and penalties for violations, damage to material property, disruptions in business operations and system failures and process management.

The Bank monitors operational risk events also under the following lines of business: financing economic entities, trade and sales, brokerage operations with natural persons, banking transactions with the economic entities, banking transactions with natural persons, payment operations, agency services and asset management.

The process of operational risk management is an integral part of the Bank activities implemented at all levels and allowing the identification, measurement, mitigation, monitoring and control, and reporting on operational risks prior to their implementation and in continuity according with regulatory requirements and deadlines. The current process relies on reliable methods of measuring exposure to operational risks, database of operational losses, updated reporting and control system.

The Bank monitors the events of operational risks and manages operational risk on a daily basis. In order to effectively monitor operational risk in each organizational unit of the Bank, employees for operational risks have been appointed, which are responsible for the accuracy and update of information on all operational risk events, as well as for recording all occurred events into database of operational risks.

Measurement, namely evaluation of operational risk of the Bank is carried out through quantitative and/or qualitative assessment of the identified operational risks. The Bank implements measurement of its operational risk exposure through recording the events and self-assessment. Self-assessment involves assessing the risk exposure by the organizational units in accordance with a map of the identified operational risk by measuring the possible range, the importance of business and the frequency of events that can cause losses, identifying the level of control that the business areas have over these risks and measures for improvement.

The Bank can not eliminate all operational risks, but through introduction of a rigorous control framework, monitoring and responding to potential risks it is able to manage these risks. Basic measure for protection against operational risk is control, which includes effective separation of duties, implementation and respect of the "four eyes" principle, consistent application of internal procedures, training of employees and special supervision by the internal audit.

Through reliable reporting on the implementation of measures for mitigation of operational risks, the Bank has established a system for monitoring activities undertaken by the organizational units of the Bank in order to reduce operational risks and preventive response to the events of operational risk which are emerging.

In order to regain recovered information technology system, in the event of termination of business activities, the Bank has adopted the Recovery plan for activities in case of disasters.

5.5. BANK INVESTMENT RISKS

The Bank investment risk is the risk investing in other legal entities and fixed assets. Investment of the Bank in a single person who is not a person in the financial sector may be up to 10% of its capital, while this investment means an investment by which the Bank acquires a share or stocks of a person other than the person in the financial sector. Total investment of the Bank in non-financial sector entities and in fixed assets can be up to 60% of the Bank capital, provided that this limitation shall not apply to the acquisition of shares for the purpose of their resale within six months from the date of acquisition.

5.6. EXPOSURE RISK

Large exposure of the Bank to a single person or group of related persons, including persons related to the Bank, is the exposure which amounts over 10% of its capital.

In its operations, the Bank takes into account compliance with regulatory defined exposure limits:

- Exposure to a single person or group of related persons shall not be greater than 25% of the Bank capital.
- Exposure to a person related with the Bank shall not be greater than 5% of its capital, and the total exposure to persons related to the Bank shall not exceed 20% of the Bank capital.
- The sum of all large exposures of the Bank may not exceed 400% of the Bank capital.

Exposure to a single person or a group of related persons, as well as exposure to persons related to the Bank was within the prescribed limits.

5.7. COUNTRY RISK

Country risk is the risk related with the country of origin of the person to whom the Bank is exposed to, or the risk of possible occurrence of adverse effects on the financial results and Bank equity due to inability of the Bank to collect receivables from debtors for reasons that are result of political, economic and social situation in the country of origin of the debtor. Country risk includes the following risks:

- political and economic risk, which means the probability of realization of loss as a result of inability of the Bank to collect receivables due to the limitations established by acts of government and other authorities of the country of origin of the debtor, as well as general and systemic conditions in that country;
- transfer risk, which means the probability of realization of loss due to inability to collect receivables denominated in a currency other than the currency of the debtor's country of origin, due to restrictions on payment obligations to creditors from other countries in a particular currency as determined by state and other authority's laws of the debtor's country.

The Bank manages the country risk at the level of individual placements and at the portfolio level. Measurement and control of individual placement exposure to country risk, the Bank performs by determining the internal rating category of the debtor's country, and based on the rating assigned by mutually recognized rating agencies and by determining exposure limits as a percentage of the Bank equity, depending on the category of internal country rating. Measurement and control of exposure of portfolio to country risk, the Bank performs on the basis of grouping according to the debtor's country degree of risk.

5.8. CAPITAL MANAGEMENT

The Bank has established a risk management system in accordance with the volume and the structure of its business activities, and the objective of capital management is undisturbed implementation of the goals of the Bank business policy.

Calculation of capital and capital adequacy ratio is compliant with Basel II standards.

Basic goals for capital management are:

- preservation of minimum regulatory requirements;
- respect of the minimum regulatory capital adequacy ratio (12%);
- maintaining confidence in the security and stability of business operations;
- achievement of business and financial plans;
- supporting the expected growth in lending operations;
- enabling optimum of future resources of funds and their use;
- realization of dividend policy.

In 2012 the Bank adequately managed the capital, maintaining a stable capital base in order to:

- ensure business continuity during unlimited period in foreseen future;
- preservation of optimal capital structure;
- minimizing the cost of capital;
- provide protection from risk.

The Bank operates in accordance with regulatory limits:

- Minimum amount of the capital is EUR 10 million in dinar equivalent;
- Minimum capital adequacy ratio is 12%.

The Bank measures the capital adequacy with respect to regulatory methodology which is in compliance with Basel II standards, by using the standardized approach.

Indicator of capital adequacy In thousand dinars

	30.09.2012.	**31.12.2011.**
Capital assets	39.328.143	41.749.118
Supplementary assets	6.446.030	5.852.703
Items deductible from assets	(14.889.495)	(20.655.322)
Capital	30.884.678	26.946.499
Credit risk-weighed assets	169.890.844	142.142.319
Exposure to operational risk	15.196.808	14.105.358
Exposure to foreign currency risk	-	-
Indicator of capital adequacy	**16,69%**	**17,25%**

6. EVENTS AFTER THE BALANCE SHEET AS AT 30 SEPTEMBER 2012

In accordance with the Law on Budget of the Republic of Serbia for 2012, and upon voting for the revision of budget of the Republic of Serbia for 2012, on October the 30th 2012, XXVI Share Issue was realized by subscription and payment of shares by the Republic of Serbia in Dinar equivalent of 100 million EUR, or RSD 11.571.997 thousand.

7. EXCHANGE RATES

The exchange rates set at the inter-bank meeting of the foreign exchange market, applied to restatement of the balance sheet items into the Dinar (RSD), were the following for some major currencies on 30 September 2012 and on 31 December 2011:

Currencies	Official NBS exchange rate	
	2012.	2011.
USD	88,9377	80,8662
EUR	115,0320	104,6409
CHF	95,0285	85,9121

Done in Belgrade,
on November the 2nd 2012

Persons responsible
for preparation of the financial statements

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
3

KOMERCIJALNA BANKA AD BEOGRAD

Svetog Save 14, 11000 Beograd
Tel: +381 11 30 80 100
Fax: +381 11 344 13 35
Registration number: 07737068
Tax Identification Number: SR 100001931
VAT number: 134968641
Activity code: 6419
Business Registers Agency: 10156/2005
Account number: 908-20501-70
SWIFT: KOBBCSBG
E-mail: posta@kombank.com

STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2012 to 30/09/2012 present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting and Audit, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the IAS and IFRS, as published by January 1, 2009, which were translated and published in the Official Gazette, in October 2010, pursuant to the decision by the Finance Minister.

Persons responsible for the preparation of financial statements

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

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД 3 БЕОГРАД