KOMERCIJALNA BANKA

Meni najbliža

REPORT

ON BANK'S OPERATIONS FOR THE FIRST QUARTER 2015

BELGRADE, MAY 2015

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1. OVERVIEW OF KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 31.12.2014 TO 31.03.2015

1.1. Bank's Performance Indicators

ITEM	31.03.15.	28.02.15.	31.01.15.	2014.	2013.
BALANCE SHEET (000 RSD)					
BS assets	392,989,112	400,927,852	409,807,683	406,261,524	362,786,319
Off-balance transactions	541,206,433	356,438,667	361,767,601	373,803,974	224,949,027
RETAIL					
Loans[1]	68,907,211	68,650,939	70,514,042	69,039,387	61,848,487
Deposits[2]	207,723,147	206,868,193	211,293,962	207,430,548	186,766,804
CORPORATE					
Loans	105,718,210	107,684,917	112,959,072	112,768,251	112,261,312
Deposits	54,196,334	52,181,077	54,680,712	57,437,462	42,131,535

ITEM	31.03.15.	28.02.15.	31.01.15.	2014.	2013.
INCOME STATEMENT (000 RSD)					
Profit before tax	207,932	597,145	416,096	4,757,589	4,588,375
Net interest income	3,460,981	2,242,808	1,196,277	13,298,586	12,929,237
Net fee income	1,143,900	728,160	357,565	4,717,757	4,565,148
PROFITABILITY RATIOS					
ROA	0.21%	0.88%	1.22%	1.25%	1.3%
ROE – share capital	2.08%	8.95%	12.47%	11.88%	11.5%
ROE – total capital	1.19%	5.11%	7.15%	7.05%	7.3%
Net interest margin on total assets	3.45%	3.32%	3.52%	3.49%	3.7%
Cost / income ratio	57.63%	59.22%	56.72%	59.65%	58.0%
Operating expenses (000 RSD)[3]	2,653,638	1,759,298	863,079	10,745,910	10,161,794
Net impairment losses and provisions (000 RSD)	-1,391,544	-669,600	-296,600	-2,725,389	-3,220,075
FX risk ratio	6.50%	4.53%	4.27%	2.90%	2.12%
Liquidity ratio	3.49	2.91	3.39	2.84	3.45
Operating cash flows	2,797,806	2,016,658	771,358	7,121,339	6,824,563

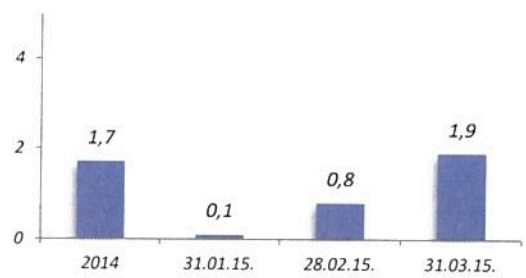
ITEM	31.03.15.	28.02.15.	31.01.15.	2014.	2013.
LOANS TO DEPOSITS RATIO					
Gross loans/deposits	75.42%	78.04%	73.61%	72.45%	77.8%
Net loans/deposits	66.68%	71.57%	67.38%	66.33%	72.0%
CAPITAL (000 RSD)	70,092,635	70,274,748	70,075,189	69,546,804	64,962.218
Capital adequacy	17.38%	18.21%	17.05%	17.67%	19.0%
Number of employees	2,895	2,900	2,906	2,906	2,966
Asset per employee (000 EUR)	1,129	1,149	1,141	1,156	1,067
Asset per employee (000 RSD)	135,748	138,251	141,021	139,801	122,315

1 Loans (retail and corporate) does not include other loans and receivables
2 Item *Deposits* does not include other liabilities and funds raised through credit lines
3 OPEX presents costs of salaries, tangible and intangible operating costs

2. MACROECONOMIC OPERATING CONDITIONS IN THE PERIOD FROM 31.12.2014 TO 31.03.2015

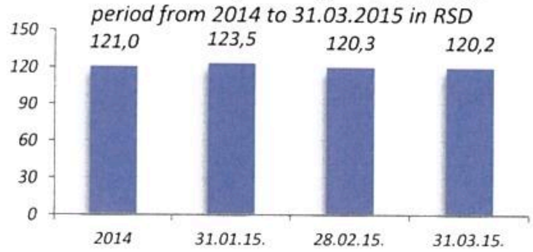
After the historic minimum in January, yoy inflation recorded a growth and accounted for 1.9% at the end of Q1. The increase in inflation is the result of temporary increase in seasonal prices, with low inflation pressures, which was indicated by the core inflation in the Q of -0.5% that was below the lower limit of the targeted tolerance deviation that was projected by the NBS Memorandum on Setting Inflation Targets (4.0+/-1.5%).

YoY rate of inflation in the period from 2014 to 31.03.2015 in %



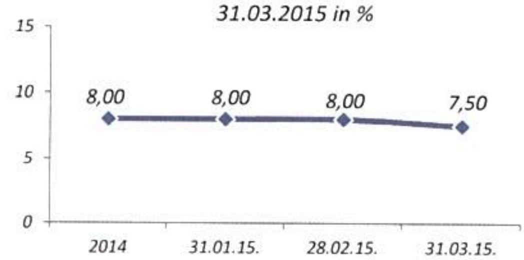
In the first quarter of this year, the dinar appreciated slightly against the euro. The dinar exchange rate has stabilized at a value of about 120 dinars for one euro. During the first quarter of the current year there was a growth in the rate of the dinar compared to the end of lastyear by 0.6%.

RSD exchange rate against EUR in the period from 2014 to 31.03.2015 in RSD



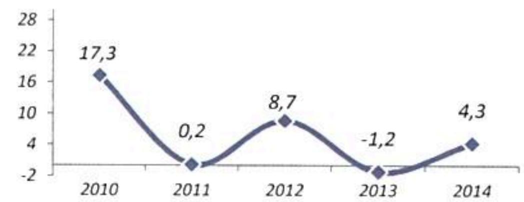
The NBS key rate was lowered to the level of 7.50% in mid-March 2015. Such decrease of the key rate came as the result of the global increase in liquidity due to quantitative easing of the ECB on the one hand, and on the other the effective implementation of fiscal consolidation, economic reform and concluding the precautionary arrangement with the IMF. The above developments have prompted greater interest of foreign investors in domestic securities. Positive economic trends and the return of inflation to the targeted limit of 4% aim at long-term economic development.

NBS key rate in the period from 2014 to 31.03.2015 in %



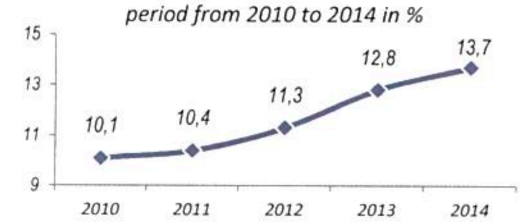
The banking sector in the Republic of Serbia recorded the balance sheet assets growth (4.3%) compared to the last year when it suffered the fall (-1.2%), which indicated the recovery of the banking sector and domestic economy.

Balance sheet assets trends in the period from 2010 to 2014 in %



The Bank increased its share in total balance sheet assets of the banking sector in 2014. During the observed period, market share of the Bank in the banking sector's assets increased by 3.6 percentage points.

Trends of KB's market share in the period from 2010 to 2014 in %



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3. BANK'S KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 31.12.2014 TO 31.03.2015

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BALANCE SHEET (000 RSD)					
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Deposits	54,196,334	52,181,077	54,680,712	57,437,462	42,131,535

As at 31.03.2015, the balance sheet of the Bank amounted to RSD 392,989.1 million and compared to the previous year it decreased by 13,272.4 million or 3.3%.

Off-balance sheet assets increased by 44.8% in 2015, and accounted for RSD 541,206.4 million at the end of March.

In the first three months of 2015, the Bank has granted customer loans in the amount of RSD 186,741.8 million, which is slightly below the achievement realized at the end of 2014 (-4.1%). In the same period, the Bank recorded a slight decrease in deposits of RSD 13,428.4 million or 4.6%. In the structure of the decrease referred to above, retail deposits increased by RSD 292.6 million, while corporate deposits decreased to the amount of RSD 13,721.0 million. The effect of the Dinar appreciation against the Euro and depreciation against the Swiss franc was included in the changes referred to above.

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INCOME STATEMENT (000 RSD)					
Profit before tax	207,932	597,145	416,096	4,757,589	4,588,375
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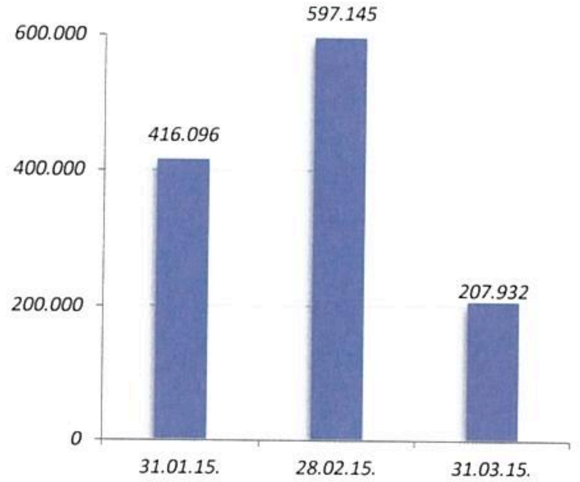
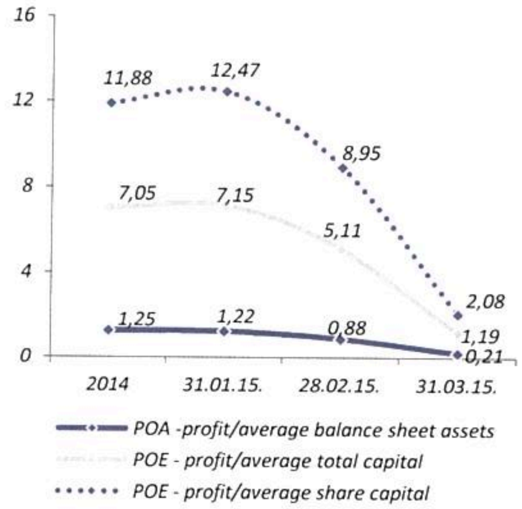
Net fee income	1,143,900	728,160	357,565	4,717,757	4,565,148
PROFITABILITY PARAMETERS					
ROA	0.21%	0.88%	1.22%	1.25%	1.33%
ROE – share capital	2.08%	8.95%	12.47%	11.88%	11.46%
ROE – total capital	1.19%	5.11%	7.15%	7.05%	7.33%
Net interest margin on total assets	3.45%	3.32%	3.52%	3.49%	3.70%
Cost / income ratio	57.63%	59.22%	56.72%	59.65%	58.00%
Operating expenses (000 RSD)[4]	2,653,638	1,759,298	863,079	10,745,910	10,161,794
Net impairment losses and provisions (000 RSD)	-1,391,544	-669,600	-296,600	-2,725,389	-3,220,075
FX risk ratio	6.50%	4.53%	4.27%	2.90%	2.12%
Liquidity ratio	3.49	2.91	3.39	2.84	3.45
Operating cash flows	2,797,806	2,016,658	771,358	7,121,339	6,824,563

[4] OPEX presents costs of salaries, tangible and intangible operating costs

Profit from regular operation in 000 RSD



Profitability ratio in %



The global financial crisis, inefficiency and illiquidity of domestic economic entities and deterioration of the loan portfolio have caused the Bank to achieve a lower profit in the first three months of this year, compared to the same period last year (-82,8%). The Bank's achieved profit in the period from 01.01 to 31.03.2015 amounted to 208.0 million dinars, which compared to the same period last year represented a decrease of RSD 999.3 million. This change in profit resulted in return on total capital of 1.2% in the first three months of 2015, or return on share capital of 2.1%.

Movements of the achieved profit in the first three quarters of 2015 were mostly affected by an increase in net expenditure arising from indirect write-offs, impairment and provisions, in the amount of RSD 797.7 million or 134.3% and an increase in other expenses in the amount of RSD 489.5 million or 34.2%. Among the positive effects it is important to note an increase in net interest income in the amount of RSD 95.5 million (2.8%) and net fee income in the amount of RSD 54.5 million (5.0%).

Reducing the volume of operations decreased the asset per employee of the Bank. In the first three months of 2015, asset per employee in the Bank decreased from RSD 139.8 million (31.12.2014) to RSD 135.7 million as of 31.03.2015.

The Cost Income ratio (CIR) accounted for 57.63% at the end of Q1 2015, while it came to 59.65% at the end of 2014.

4. BALANCE SHEET AS AT 31.03.2015

4.1. Bank's Assets as at 31.03.2015

(000 RSD)

No.	ITEM	31.03.2015.	31.12.2014.	INDICES	% OF SHARE ON 31.03.2015
1	2	3	4	5=(3:4)*100	6
	ASSETS				
1.	Cash and funds held with the Central Bank	70,988,391	68,547,389	103.56	18.06
2.	Pledged financial assets	-	-	-	-
3.	Financial assets at fair value through income statement intended for trade	148,166	121,634	121.81	0.04
4.	Financial assets initially recognized by fair value through income statement	-	-	-	-
5.	Financial assets available for sale	95,483,500	95,481,249	100.00	24.30
6.	Financial assets held to maturity	22.694	51.442	44.12	0.01
7.	Loans and receivables from banks and other financial institutions	26.335.525	34.737.605	75.81	6.70
8.	Loans and receivables from customers	178.492.317	185.377.035	96.29	45.42
9.	Changes in fair value of items that are the subject of hedging	-	-	-	-
10.	Receivables from financial derivatives intended for hedging	-	-	-	-
11.	Investments in related entities and joint ventures	-	-	-	-
12.	Investments in subsidiaries	5,480,888	5,480,888	100.00	1.39
13	Non-material investments	356,656	405,774	87.90	0.09
14.	Real-estate, facilities and equipment	6,240,372	6,329,077	98.60	1.59
15.	Investment properties	2,827,842	2,581,144	109.56	0.72
16.	Current tax assets	75,004	73,835	101.58	0.02
17.	Deferred tax assets	127,530	0	-	0.03
18.	Fixed assets intended for sale and assets from discontinued operations	84,227	84,227	100.00	0.02
19.	Other assets	6,326,000	6,990,225	90.50	1.61
	TOTAL ASSETS (from 1. to 19.)	**392,989,112**	**406,261,524**	96.73	100.00

At the end of Q1 2015, balance sheet assets of the Bank decreased by RSD 13,272.4 million or 3.3%. Loans and receivables from customers (according to the new balance sheet format) decreased by RSD 6,884.7 million or 3.7%. On 31.03.2015, total „loans and receivables from customers and banks" amounted to RSD 204,827.8 million, which accounted for 52.1% of the total balance sheet assets.

In the first quarter of 2015, item „cash and funds held with the Central Bank" recorded the increase of 3.6%.

Item „investment properties" recorded the increase of RSD 246.7 million or 9.6%.

4.2. Bank's Liabilities as at 31.03.2015

(000 RSD)

No.	ITEM	31.03.2015.	31.12.2014.	INDICES	% OF SHARE ON 31.03.2015
1	2	3	4	5= (3:4)*100	6
I	**LIABILITIES**				
1.	Financial liabilities at fair value through profit or loss held for trading	-	-	-	-
2.	Financial liabilities initially recognized at fair value through profit or loss	-	-	-	-
3.	Liabilities arising from financial derivatives intended for hedging	-	-	-	-
4.	Deposits and other liabilities to banks, other financial institutions and the Central Bank	21,835,405	23,743,018	91.97	5.56
5.	Deposits and other liabilities to other customers	289,936,989	301,954,911	96.02	73.78
6.	Changes in fair value of items that are the subject of hedging	-	-	-	-
7.	Issued own securities and other borrowed funds	-	-	-	-
8.	Subordinated liabilities	6,075,620	6,036,680	100.65	1.55
9.	Provisions	1,795,842	1,640,595	109.46	0.46
10.	Liabilities arising from assets intended for sale and assets from discontinued operations	-	-	-	-
11.	Current tax liabilities	-	-	-	-
12.	Deferred tax liabilities	277,936	150,407	184.79	0.07
13.	Other liabilities	2,974,685	3,189,109	93.28	0.76
14.	**TOTAL LIABILITIES (1 to 13)**	**322,896,477**	**336,714,720**	95.90	82.16
	CAPITAL				
15.	Share capital	40,034,550	40,034,550	100.00	10.19
16.	Own shares	-	-	-	-
17.	Profit	6,963,787	6,755,855	103.08	1.77
18.	Loss	-	-	-	-
19.	Reserves	23,094,298	22,756,399	101.48	5.88
20.	Unrealized losses	-	-	-	-
21.	Non-controlling stakes	-	-	-	-
22.	**TOTAL CAPITAL (15-16+17-18+19-20+21)**	**70,092,635**	**69,546,804**	100.78	17.84
	TOTAL LIABILITIES	**392,989,112**	**406,261,524**	96.73	100.00

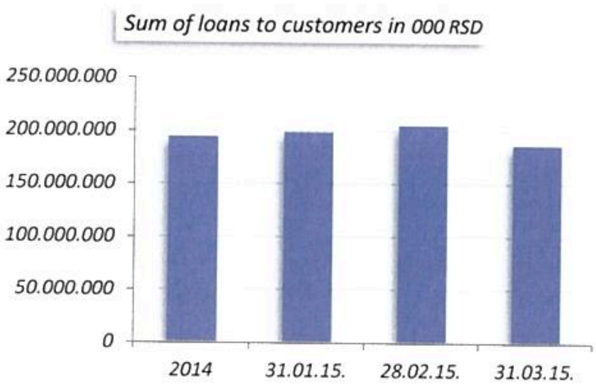
At the end of the first three months of 2015, total liabilities amounted to RSD 322,896.5 million and make up 82.2% of total liabilities (31.12.2014: 82.9%). At the same time, with RSD 70,092.6 million total capital participates in total liabilities 17.8% (31.12.2014: 17.1%). Total liabilities decreased compared to the previous year to RSD 13,818.2 million or 4.1%, while total capital increased to RSD 545.8 million or 0.8%.

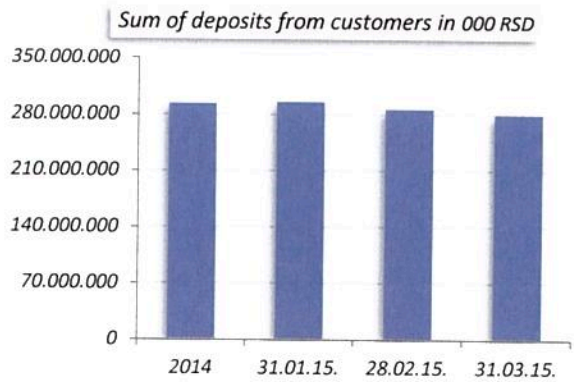
The item "deposits and liabilities to customers" decreased in the reporting period by RSD 12,017.9 million or 4.0%, while the position "of deposits and liabilities to banks" decreased compared to the end of last year by RSD 1,907.6 million or 8.0%. The item "other liabilities" decreased by RSD 214.4 million or 6.7%. The subordinated loan of 50.0 million euros (6,075.6 million dinars) was withdrawn in late 2011 in order to increase the regulatory capital.

In the first three months of this year, foreign credit lines decreased in the net equivalent of 660,952.5 million dinars, so that the balance of the underlying liabilities accounted for RSD 28,367.1 million as of 31.03.2015.

In the structure of the balance-sheet liabilities, total deposits and other liabilities of banks and customers amounted to RSD 311,772.4 million, which makes 79.3% of total balance sheet liabilities, thereby recording a decrease compared to the beginning of the year of RSD 13,925.5 million or 4.3%.

4.3. Loans to Customers and Deposits from Customers as at 31.03.2015





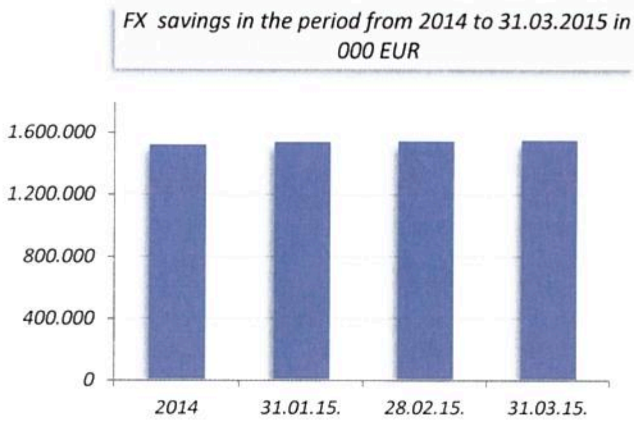
The most important category of assets „loans and advances to customers" (other loans and receivables excluded) recorded a decrease of RSD 7,919.4 million (-4.1%). At the end of the Q1 2015, the level of loans and advances to customers, under the significant influence of lending to corporate entities, which reached the amount of RSD 105,7182 million (-6,3%) at the end of March, while retail loans decreased by RSD 132.2 million or 0.2%. On 31.03.2015, the total loans and advances to customers and banks came to RSD 186,741.8 million and decreased by RSD 7,919.4 million or 4.1% compare to the last year end.

(000 RSD)

No.	ITEM	BALANCE ON 31.03.2015	BALANCE ON 31.12.2014	INDEX
1	2	3	4	5= (3:4)*100
I	*LOANS TO CUSTOMERS (1.+2.+3.)*	**186,741,764**	**194,661,130**	95.93
1.	Corporate	105,718,210	112,768,251	93.75
2.	Retail	68,907,211	69,039,387	99.81
3.	Banks and financial institutions	12,116,343	12,853,493	94.26
II	*DEPOSITS FROM CUSTOMERS (1.+2.+3.)*	**280,037,701**	**293,466,122**	95.42
1.	Corporate	54,196,334	57,437,462	94.36
2.	Retail	207,723,147	207,430,548	100.14
3.	Banks and financial institutions	18,118,220	28,598,113	63.35

NOTE: Loans to customers and deposits from customers according to the former balance sheet format

Change of deposits (other liabilities excluded) in the first quarter of 2015, mostly resulted from decrease in deposits from banks and financial institution (RSD 10,479.9 million), decrease in companies' deposits (equivalent of RSD 3,241.1 million), and increase in retail deposits (equivalent of RSD 292.6 million). In the last quarter, as part of the changes referred to above, retail foreign currency savings increased by EUR 29.6 million. .



Enjoying the reputation of safe and stable banka in the Serbian market, KB achieved the increase of foreing curreny savings by RSD 29.6 million Euros or 1.9% in the observed period.

In spite of still-present economic crisis, foreign currency savings increased in the first three months of 2015 and reached the sum of 1,551.8 million Euros.

Trust of the depositors made it possible that the Bank maintains the first place within the banking sector of the Republic of Serbia according to the volume of raised foreign currency savings, image and recognition.

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

(000 RSD)

No.	ITEM	BALANCE AS AT 31.03.2015.	BALANCE AS AT 31.12.2014.	INDEX
1	2	3	4	5=(3:4)*100
I	**OPERATIONS FOR AND ON BEHALF OF (commission operations)**	**5,449,000**	**5,500,690**	99.06
II	**CONTINGENT LIABILITIES**	**27,392,164**	**29,774,694**	92.00
1.	Payable guarantees	4,752,896	4,767,131	99.70
2.	Performance bonds	7,429,507	7,832,355	94.86
3.	Bill guarantee and bill acceptance	26,620	27,185	97.92
4.	Undrawn commitments	14,809,526	16,376,020	90.43
5.	Other off-balance sheet items that may lead to payment by the bank	360,072	744,294	48.38
6.	Uncovered letters of credit	13,544	27,709	48.88
III	**UNCLASSIFIABLE OFF-BALANCE SHEET ITEMS**	**508,365,269**	**338,528,590**	150.17
1.	FX savings bonds	3,768,489	3,811,270	98.88
2.	Securities in custody	209,510,040	204,783,314	102.31
3.	Other off-balance sheet items	295,086,740	129,934,006	227.11
	TOTAL (I +II+III)	**541,206,433**	**373,803,974**	144.78

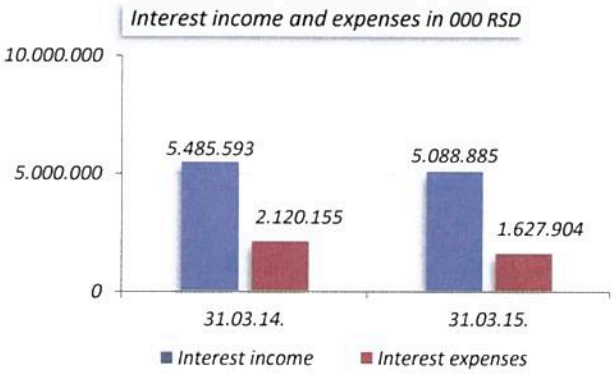
As of 31.03.2015, contingent off-balance sheet liabilities amount to total of RSD 27,392.2 million – decrease to RSD 2,382.5 million, or 8.0% in comparison to the end of the previous year, due to decrease of „uncovered letters of credit" and „other items that may lead to payment by the bank".

5. INCOME STATEMENT FOR THE PERIOD FROM 01.01.2015 TO 31.03.2015

(000 RSD)

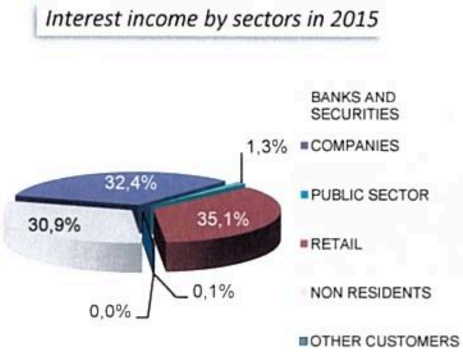
No.	ITEM	31.03.2015.	31.03.2014.	INDICES
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	5,088,885	5,485,593	92.77
1.2.	Interest expenses	1,627,904	2,120,155	76.78
1.	**Interest gains**	**3,460,981**	**3,365,438**	102.84
2.1.	Fee and commission income	1,404,876	1,309,397	107.29
2.2.	Fee and commission expenses	260,976	219,959	118.65
2.	**Fee and commission gains**	**1,143,900**	**1,089,438**	105.00
3.	Net gains / losses arising from financial assets held for trading	-116	1,621	-7.16
4.	Net gain / loss arising from risk hedge	-	-	-
5.	Net gain / loss on financial assets are initially recognized at fair value through profit or loss	-	-	-
6.	Net gain / loss on financial assets available for sale	-9,927	0	-
7.	Net income / expense from exchange rate differences and the effects of foreign currency clause	31,757	-31,746	-100.03
8.	Net gain / loss on investments in related companies and joint ventures	-	-	-
9.	Other operating income	104,280	66,474	156.87
10.	Net income / expense for the impairment of value of financial assets and credit risk bearing off balance sheet items	-1,391,544	-593,844	234.33
11.	**TOTAL NET OPERATING INCOME**	**3,339,331**	**3,897,381**	85.68
12.	**TOTAL NET OPERATING EXPENSE**	-	-	-
13.	Wages, salaries and other personal expenses	1,003,626	1,053,786	95.24
14.	Depreciation costs	206,101	204,177	100.94
15.	Other expenses	1,921,672	1,432,156	134.18
16.	**PROFIT BEFORE TAX**	**207,932**	**1,207,262**	17.22
17.	**LOSS BEFORE TAX**	-	-	-
18.	Income tax	-	-	-
19.	Profit from deferred tax	-	-	-
20.	Loss from deferred taxes	-	-	-
21.	**PROFIT AFTER TAX**	**207,932**	**1,207,262**	17.22
22.	**LOSS AFTER TAX**	-	-	-
23.	Net profit from discontinued operations	-	-	-
24.	Net loss from discontinued operations	-	-	-
25.	**RESULT OF PERIOD – PROFIT**	**207,932**	**1,207,262**	17.22
26.	**RESULT OF PERIOD – LOSS**	-	-	-
27.	Profit attributable to the parent entity	-	-	-
28.	Profit attributable to non-controlling shareholders	-	-	-
29.	Loss attributable to the parent entity	-	-	-
30.	Loss attributable to non-controlling shareholders	-	-	-
31.	Earnings per share	-	-	-
32.	Basic earnings per share	-	-	-
33.	Diluted earnings per share	-	-	-

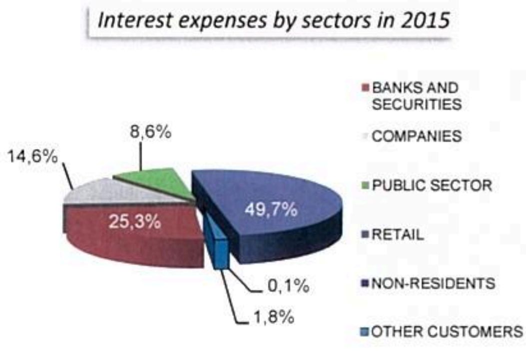
5.1. Interest Income and Expenses



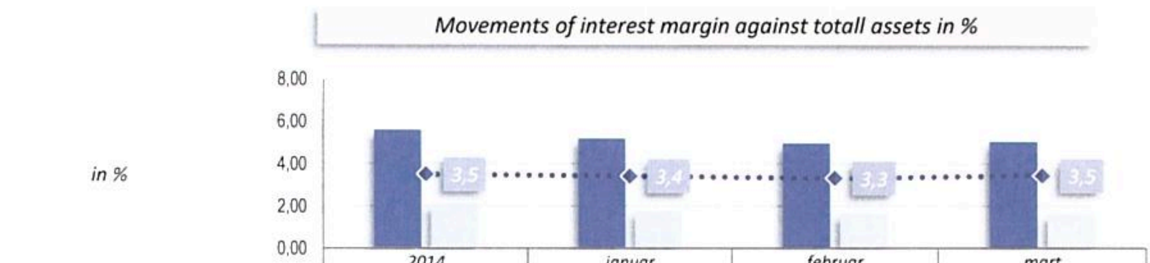
Interest gains amount to RSD 3,461.0 which, in comparison to the same period last year, represents an increase of 2.8%.

Compared to the previous year, interest income decreased by RSD 396.7 million or 7,2%, %, while interest expenses decreased by RSD 492.3 million or 23.2%.





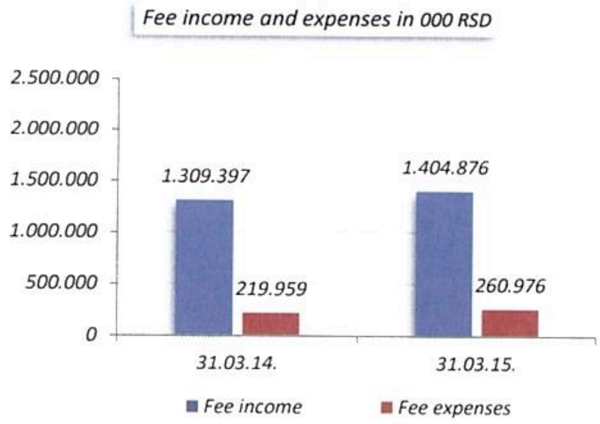
Largest share in the interest income is of the interest income from retail transactions (RSD 1,788.6 million or 35.1%), while interest on retail deposits dominate in interest expenses (RSD 808.9 million or 49.7%) which mostly resulted from raised FX savings.



	2014	januar	februar	mart
Average lending interest rate	5,6	5,2	5,0	5,1
Average debit interest rate	2,1	1,8	1,7	1,6
Average interest margin	3,5	3,4	3,3	3,5

At the end of Q1 2015, the average lending interest rate came to 5.1%, and the average debit interest rate was 1.6%, so the average interest margin in the first quarter of 2015 totalled 3.5%.

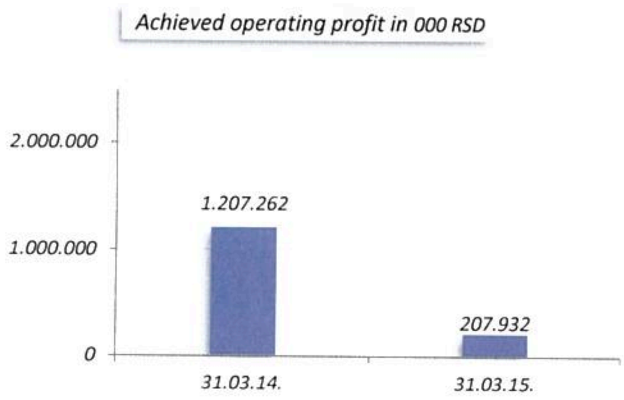
5.2. Fee Income and Expenses



Compared to the previous year, banking services-related fee and commission income increased by RSD 95,5 million, or by 7.3%, while fee and commission expenses increased by RSD 41,0 million, or by 18.7%.

In the first three months of 2015, fee and commission gains amounted to RSD 1,144.0 million, and were higher than in the same period last year by 5.0%.

5.3. Achieved operating profit



Due the adverse and unpredictable macroeconomic operating conditions and slight recovery in the interenational and national economies, in the period from January the 1st to March the 31st 2015, KB achieved the operating profit to the amount of RSD 208,0 million, which makes for a decrease of RSD 999,3 million in comparison to the same period last year.

This amount of the achieved operating profit provided for the Bank, in the first quarter of 2015, return on total capital of 1.2%, or return on share capital 2.1%.

PERFORMANCE INDICATORS PRESCRIBED BY THE LAW ON BANKS

No.	ITEM	PRESCRIBED	31.03.2015.	2014.
1.	CAPITAL ADEQUACY RATIO (NET CAPITAL / CREDIT RISK + OPERATIONAL RISKS + OPEN FX POSITION)	MIN. 12%	17.38%	17.67%
2.	RATIO OF INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR AND FIXED ASSETS	MAX. 60%	29.06%	27.60%
3.	BANK'S LARGE EXPOSURE RATIO	MAX. 400%	143.40%	160.59%
4.	FX RISK RATIO	MAX. 20%	6.50%	2.90%
5.	LIQUIDITY RATIO	MIN. 0.8	3.49	2.84

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

A detailed overview of main risks and threats the Bank will be exposed to in the upcoming period is presented in the Risk Management Chapter, Notes to Financial Statements.

7. ALL MAJOR TRANSACTIONS WITH RELATED ENTITIES

On 31.03.2015, persons related to the Bank are:

1. Komercijalna Banka a.d. Budva, Montenegro,
2. Komercijalna Banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest, a.d. Belgrade,
4. Six legal persons (Lasta doo, Viš trade doo, Desk doo, Menta doo, Meplast doo Kruševac, Futura – Faculty of Applied Ecology Belgrade) as well as many natural persons, pursuant to the provisions of the Article 2 of the Law on Banks, in the part that specifies the term „persons related to the bank".

Total exposure of the persons related to the Bank as of 31.03.2015, amounted RSD 711.358 thousands, which, relative to the capital of RSD 31.240.384 thousands, represented 2.28% (maximal value of total lending to all the persons related to the Bank according to the Law on Banks amounted 20% of the capital).

Major portion of exposure to persons related to the Bank as of 31.03.2015, was the amount of RSD 625.511 thousands, or 2.00% of the Bank's capital, and it refers to all loans to retail customers that are persons related to the Bank.

According to the Article 37 of the Law on Bank, the Bank has not granted loans to the persons related to the bank under conditions that are better than the conditions for granting loans to other customers unrelated to the Bank.

A detailed overview of the Bank's relationships with related parties is presented in clause related parties Notes to the financial statements.

8. KEY DATA ON BUSINESS PLAN IMPLEMENTATION FOR THE YEAR 2015

Implementation of the Strategy and Business Plan in the first three months of 2015 was carried out under the following macro-economic operating conditions, including particularly:

- recorded decline in GDP of 1.9% in the first quarter of 2015 compared to the same period last year (Statistical Office of the Republic of Serbia, flash estimate), the plan for the whole year is a decrease of 0.5% (MF, NBS),
- Stable dinar exchange rate movement around the level of 120 dinars for one euro (exchange rate of the dinar against the euro -planned for the end of the current year: 1 euro = 125.00 dinars (KB), realized on 31.03.2015: 1 euro = 120.22 dinars),
- Inflation rate (yoy, March 2015/March 2014: + 1.9%) has a slight upward trend and is currently below the targeted lower limit for March of this year (4.0 +/- 1.5%).

In spite of the above, significant impact on operation of banks in the first three months of 2015 remained still existent public debt crisis in the Euro zone, geopolitical crisis in connection with the status of Ukraine, implementation of fiscal consolidation measures and its first results, reluctance of the foreign investors to invest in Serbia, decrease in loan disbursements, especially in the corporate sector, reduction of the consolidated deficit (-21.1 BN РСД[5]) by two thirds compared to the same period last year, growth in public debt (73.3% of GDP[6]), and the biggest drop in risk premium in the region[7], over 30 bp, mainly due to the signed arrangement with the IMF.

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[5] Ministry of Finance of RS, Current macro-economic trends, April 2015.
[6] Ministry of Finance of RS, Current macro-economic trends, April 2015.
[7] NBS, Macro-economic trends in Serbia, April 2015.

8.1. Planned and Achieved Values of the Balance Sheet for Q1 2015

At the end of the 1st quarter, the total Bank's balance sheet assets amounted to RSD 392,989.1 million and compared to the planned value for the same period increased by RSD 3,028.6 million or 0.8%. Significant positive deviations between actual and planned values were recorded at the position of „cash and cash equivalents", the value achieve exceeded by RSD 11,928.4 million or +32.8% on the balance sheet day.
Fall of values generated in relation to the planned was particularly recorded at the position of callable deposits and loans, which reduced by RSD 14,989.5 million (-29.8%).

In the structure of balance sheet liabilities, positive deviations compared to the planned values was declared at the position of deposits (RSD 5,741.3 MN, observed according to the former balance format), mainly due to the growth in deposits of banks and other financial institutions (RSD 3,348.1 MN), growth of companies' deposits (RSD 3,431.8 MN), while negative deviation was declared at the position of „other liabilities" – decrease to the amount of RSD 2,826.8 million.

Dinar exchange rate - appreciation (0.6% compared to the EUR), to a certain extent increased the deviation of realized and planned sizes.

Achieved and planned positions of assets and liabilities in the balance sheet as of 31.03.2015 are as follows:

(RSD MN)

No.	ITEM	Plan 31.03.2015	Achieved 31.03.2015.	Plan realization in %
1	2	3	4	5=4/3
	ASSETS			
1.	Cash and cash equivalents	36,418	48,346	132.75
2.	Callable deposits and loans	50,229	35,239	70.16
3.	**Loans and deposits to customers (3.1.+3.2.+3.3.)**	**190,649**	**186,742**	97.95
3.1.	Corporate	107,500	105,718	98.34
3.2.	Retail	70,822	68,907	97.30
3.3.	Banks and other financial institutions	12,327	12,116	98.29
4.	Other assets	112,664	122,661	108.87
5.	TOTAL ASSETS (1.+2.+3.+4.)	**389,961**	**392,989**	100.78

	LIABILITIES			
1.	**Deposits**	**274,296**	**280,038**	102.09
1.1.	Corporate	50,765	54,196	106.76
1.2.	Retail	208,762	207,723	99.50
1.3.	Banks and financial institutions	14,770	18,118	122.67
2.	**Other liabilities**	45,686	42,859	93.81
3.	**Total liabilities (1. +2.)**	**319,982**	**322,897**	100.91
4.	**Total capital**	**69,979**	**70,093**	100.16
5.	TOTAL LIABILITIES (3.+4.)	**389,961**	**392,989**	100.78

8.2. Planned and realized values of the Income Statement for the period 01.01-31.03.2015

(000 RSD)

No.	ITEM	Plan 01.01-31.03.2015	Achieved 01.01-31.03.2015	Plan realization in %
1	2	3	4	5=4/3
1.1.	Interest income	5,169	5,089	98.44
1.2.	Interest expenses	1,788	1,628	91.04
1.	**Interest gains (1.1.-1.2.)**	**3,381**	**3,461**	102.36
2.1.	Fee and commission income	1,453	1,405	96.70
2.2.	Fee and commission expenses	277	261	94.13
2.	**Fee and commission gains (2.1. -2.2.)**	**1,176**	**1,144**	97.30
3.	Net FX gains/losses and valuation adjustment (FX clause)	25	32	127.03
4.	Net other operating income/expenses	86	-384	-448.57
5.	Net expenses/income from indirect write off of loans and provisions	-800	-1,392	173.94
6.	Operating expenses	2,680	2,654	99.03
7.	**OPERATING PROFIT**	**1,188**	**208**	17.51

Regarding the positions of the income statement, a slight deviation is observed at the position of the interest gains (achieved value was increased by RSD 79.7 million compared to the planned size), fee and commission income (achieved value decreased by RSD 31.7 million compared to the planned size). Operating expenses in the same period were lower than the planned by RSD 26.1 million as a result of the rationalization of operating costs. Due to the increase in expenditures on impairment of financial assets and credit risk bearing off balance sheet items in the first quarter of 2015, the Bank realized profit before tax of 207.9 million dinars, representing 17.5% of the planned values for the period from January the 1st to March the 31st 2015.

Belgrade, May 2015

KOMERCIJALNA BANKA AD BEOGRAD

Director of financial, controlling, planning and budgeting	Executive Director for Accounting
Vasimir Ismailović	Savo Petrović

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД 4

BALANCE SHEET

on 31.03.2015.

(in RSD thousand)

POSITION	ADP code	Amount	
		Current year ammount	Previous year ammount
1	2	3	4
ASSETS			
Cash and balances with central banks	0001	70.988.391	68.547.389
Pledged funds	0002	-	-
Financial assets at fair value through profit or loss held for trading	0003	148.166	121.634
Financial assets initially recognized at fair value through profit or loss	0004	-	-
Financial assets available for sale	0005	95.483.500	95.481.249
Financial assets held to maturity	0006	22.694	51.442
Loans and advances to banks and other financial institutions	0007	26.335.525	34.737.605
Loans and advances to clients	0008	178.492.317	185.377.035
Changes in fair value of items that are the subject of hedging	0009	-	-
Receivables from financial derivatives held for hedging	0010	-	-
Investments in associates and joint ventures	0011	-	-
Investments in subsidiaries	0012	5.480.888	5.480.888
Intangible assets	0013	356.656	405.774
Property, plant and equipment	0014	6.240.372	6.329.077
Investment property	0015	2.827.842	2.581.144
Current tax assets	0016	75.004	73.835
Deferred tax assets	0017	127.530	-
Non-current assets held for sale and assets of discontinued operations	0018	84.227	84.227
Other assets	0019	6.326.000	6.990.225
TOTAL ASSETS (from 0001 to 0019)	0020	392.989.112	406.261.524
LIABILITIES			
Financial liabilities at fair value through profit or loss held for trading	0401	-	-
Financial liabilities initially recognized at fair value through profit or loss	0402	-	-
Liabilities from financial derivatives held for hedging	0403	-	-
Deposits and other liabilities to banks, other financial institutions and the central bank	0404	21.835.405	23.743.018
Deposits and other liabilities to other clients	0405	289.936.989	301.954.911
Changes in fair value of items that are the subject of hedging	0406	-	-
Issued own securities and other borrowed funds	0407	-	-
Subordinated liabilities	0408	6.075.620	6.036.680
Provisions	0409	1.795.842	1.640.595
Liabilities from non-current assets held for sale and assets of discontinued operations	0410	-	-
Current tax liabilities	0411	-	-
Deferred tax liabilities	0412	277.936	150.407
Other liabilities	0413	2.974.685	3.189.109
TOTAL LIABILITIES (from 0401 to 0413)	0414	322.896.477	336.714.720
EQUITY			
Equity	0415	40.034.550	40.034.550
Own shares	0416	-	-
Profit	0417	6.963.787	6.755.855
Loss	0418	-	-
Reserves	0419	23.094.298	22.756.399
Unrealized losses	0420	-	-
Shares without control	0421	-	-
TOTAL EQUITY (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) ≥ 0	0422	70.092.635	69.546.804
TOTAL DEFICIENCY OF CAPITAL (0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) < 0	0423	-	-
TOTAL LIABILITIES (0414 + 0422 - 0423)	0424	392.989.112	406.261.524

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД 4 БЕОГРАД

INCOME STATEMENT

from 01.01.2015 to 31.03.2015

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03	01.01.-31.03.	01.01.-31.03
1	2	3*	4**	5	6
Interest income	1001	5.088.885	5.088.885	5.485.593	5.485.593
Interest expenses	1002	1.627.904	1.627.904	2.120.155	2.120.155
Net interest profit (1001-1002)	1003	3.460.981	3.460.981	3.365.438	3.365.438
Net interest loss (1002-1001)	1004	-	-	-	-
Fee and commission income	1005	1.404.876	1.404.876	1.309.397	1.309.397
Fee and commission expenses	1006	260.976	260.976	219.959	219.959
Net fee and commission income (1005 - 1006)	1007	1.143.900	1.143.900	1.089.438	1.089.438
Net fee and commission expenses (1006 - 1005)	1008	-	-	-	-
Net gains on financial assets held for trading	1009	-	-	1.621	1.621
Net loss on financial assets held for trading	1010	116	116	-	-
Net gains from risk protection	1011	-	-	-	-
Net loss from risk protection	1012	-	-	-	-
Net gains on financial assets that are initially recognized at fair value through profit or loss	1013	-	-	-	-
Net losses on financial assets that are initially recognized at fair value through profit or loss	1014	-	-	-	-
Net profit from sale of securities	1015	-	-	-	-
Net loss from sale of securities	1016	9.927	9.927	-	-
Net income from foreign exchange differences and effects of contracted foreign currency clause	1017	31.757	31.757	-	-
Net foreign exchange losses and the effects of contracted foreign currency clause	1018	-	-	31.746	31.746
Net gains on investments in associates and joint ventures	1019	-	-	-	-
Net loss on investments in associates and joint ventures	1020	-	-	-	-
Other operating income	1021	104.280	104.280	66.474	66.474
Net income from reversal of impairment of financial assets and off-balance sheet credit risk items	1022	-	-	-	-
Net impairment losses of financial assets and off-balance sheet credit risk items	1023	1.391.544	1.391.544	593.844	593.844
NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) ≥ 0	1024	3.339.331	3.339.331	3.897.381	3.897.381
NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 + 1022 - 1023) < 0	1025	-	-	-	-
Salenes, wages, and other personnel indemnities	1026	1.003.626	1.003.626	1.053.786	1.053.786
Depreciation costs	1027	206.101	206.101	204.177	204.177
Other expenses	1028	1.921.672	1.921.672	1.432.156	1.432.156
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) ≥ 0	1029	207.932	207.932	1.207.262	1.207.262
LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1024 - 1025 - 1026 - 1027 - 1028) < 0	1030	-	-	-	-
Tax on profit	1031	-	-	-	-
Deffered tax income for the period	1032	-	-	-	-
Deffered tax expense for the period	1033	-	-	-	-
PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1034	207.932	207.932	1.207.262	1.207.262
LOSS FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1035	-	-	-	-
NET PROFIT OF DISCONTINUED OPERATIONS	1036	-	-	-	-
NET LOSS OF DISCONTINUED OPERATIONS	1037	-	-	-	-
NET PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1038	207.932	207.932	1.207.262	1.207.262
NET LOSS (1034 - 1035 + 1036 - 1037) < 0	1039	-	-	-	-
Net profit which belongs to owners of parent legal entity	1040	-	-	-	-
Net profit which belongs to minority investors	1041	-	-	-	-
Net loss which belongs to owners of parent legal entity	1042	-	-	-	-
Net loss which belongs to minority investors	1043	-	-	-	-
Earnings per share					
Basic earnings per share (in RSD, rounded)	1044	-	-	-	-
Diluted earnings per share (in RSD, rounded)	1045	-	-	-	-

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

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

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

REPORT ON OTHER FINANCIAL RESULT

from 01.01.2015. to 31.03.2015.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03	01.01.-31.03.	01.01.-31.03
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	207.932	207.932	1.207.262	1.207.262
LOSS FOR THE PERIOD	2002	-	-	-	-
Other result for the period		-	-	-	-
Components of other result that cannot be reclassified to profit or loss: Increase of revaluation reserves against intangible assets and fixed assets	2003	-	-	-	-
Decrease of revaluation reserves against intangible assets and fixed assets	2004	-	-	3.472	3.472
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2007	-	-	-	-
Negative effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2008	-	-	-	-
Components of other result that can be reclassified to profit or loss: Positive effects of changes in fair value based on financial assets available for sale	2009	466.595	466.595	417.594	417.594
Unrealized losses arising from securities available for sale	2010	128.696	128.696	-	-
Gains from hedging instruments in a cash flow hedge	2011	-	-	-	-
Losses from hedging instruments in a cash flow hedge	2012	-	-	-	-
Positive cumulative differences arising from currency conversions in foreign exchange operations	2013	-	-	-	-
Negative cumulative differences arising from currency conversions in foreign exchange operations	2014	-	-	-	-
Positive effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2015	-	-	-	-
Negative effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2016	-	-	-	-
Tax-related profit that pertains to other result for the period	2017	-	-	-	-
Tax-related loss that pertains to other result for the period	2018	-	-	-	-
Total positive other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) ≥ 0	2019	**337.899**	**337.899**	**414.122**	**414.122**
Total negative other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018) < 0	2020	-	-	-	-
TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) ≥ 0	2021	**545.831**	**545.831**	**1.621.384**	**1.621.384**
TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2019 - 2020) < 0	2022	-	-	-	-
Total positive result for the period that pertains to parent entity	2023	-	-	-	-
Total positive result for the period that pertains to owners without control rights	2024	-	-	-	-
Total negative result for the period that pertains to parent entity	2025	-	-	-	-
Total negative result for the period that pertains to owners without control rights	2026	-	-	-	-

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

CASH FLOW STATEMENT

from 01.01.2015 to 31.03.2015

(in RSD thousand)

	POSITION	ADP code	Amount 01.01.-31.03.2015.	Amount 01.01-31.03.2014.
	1	2	3*	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflows from operating activities (from 3002 to 3005)**	3001	6.966.099	6.370.543
1.	Inflows from Interest	3002	5.498.058	5.001.401
2.	Inflows from allowances	3003	1.418.375	1.312.935
3.	Inflows from other operating income	3004	48.717	55.669
4.	Inflows from dividends and participation in profit	3005	949	538
II.	**Cash outflows from operating activities (from 3007 to 3011)**	3006	4.168.293	4.151.468
5.	Outflows from interest	3007	1.383.904	1.640.210
6.	Outflows from allowances	3008	261.431	222.088
7.	Outflows from gross salleries, wages and other personnel indemnities	3009	879.434	690.270
8.	Outflows from taxes, contributions and other obligations from income	3010	178.002	140.745
9.	Outflows from other operating expenses	3011	1.465.522	1.458.155
III.	**Net cash inflow from operating activities prior to increase or decrease in advances and deposits (3001 - 3006)**	3012	2.797.806	2.219.075
IV.	**Net cash outflow from operating activities prior to increase or decrease in advances and deposits (3006 - 3001)**	3013	-	-
V.	**Decrease in loans and increase in deposits and other liabilities (from 3015 to 3020)**	3014	21.370.741	7.304.777
10.	Decrease in loans and advances to banks, other financial institutions, central bank and other clients	3015	15.511.912	-
11.	Decrease of financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3016	5.858.829	-
12.	Decrease in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3017	-	-
13.	Increase in deposits and other liabilities to banks, other financial institutions, central banks and other clients	3018	-	7.304.777
14.	Increase in financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3019	-	-
15.	Increase in liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3020	-	-
VI.	**Increase in loans and decrease in deposits and other liabilities (from 3022 to 3027)**	3021	14.886.593	17.077.194
16.	Increase in loans and advances to banks, other financial institutions, central bank and other clients	3022	-	11.489.497
17.	Increase in financial assets that are initially recognized at fair value through profit or loss, financial assets held for trading and other securities that are not intended for investment	3023	-	5.587.697
18.	Increase in receivables from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3024	-	-
19.	Decrease in deposits and other liabilities to banks, other financial institutions, central bank and other clients	3025	14.886.593	-
20.	Decrease of financial liabilities initially recognized at fair value through profit or loss and financial liabilities held for trading	3026	-	-
21.	Decrease of liabilities from financial derivatives held for hedging and fair value adjustments of items that are the subject of hedging	3027	-	-
VII.	**Net cash inflow from operating activities before tax (3012 - 3013 + 3014 - 3021)**	3028	9.281.954	-
VIII.	**Net cash outflow from operating activities before tax (3013 - 3012 + 3021 - 3014)**	3029	-	7.553.342
22.	Profit tax paid	3030	1.170	194.373
23.	Dividends paid	3031	120	591
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	9.280.664	-
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	-	7.748.306
Б.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
I.	**Cash inflows from investing activities (од 3035 до 3039)**	3034	11.370.221	3.995.615
1.	Inflows from long-term investment in securities	3035	11.368.304	3.995.531
2.	Inflows from sale of investments in subsidiaries and associates and joint ventures	3036	-	-
3.	Inflows from sale of intangible assets, property, plant and equipment	3037	1.917	84
4.	Inflow of sale of investment property	3038	-	-
5.	Other inflows from investing activities	3039	-	-
II.	**Cash outflows from investing activities (from 3041 to 3045)**	3040	17.208.438	10.142.268
6.	Outflows from investment in long-term securities	3041	17.132.691	10.044.643
7.	Outflows from purchase of investments in subsidiaries and associates and joint ventures	3042	-	-
8.	Outflows from purchase of sale of intangible assets, property, plant and equipment	3043	75.747	97.036
9.	Outflows from purchase of investment property	3044	-	589
10.	Other outflows from investing activities	3045	-	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	-	-
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	5.838.217	6.146.653
B.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflows from financing activities (from 3049 to 3054)**	3048	21.881.244	63.875.468
1.	Inflows from capital increase	3049	-	-
2.	Cash inflows from subordinated obligations	3050	-	-
3.	Cash inflows from loans received	3051	21.881.244	63.875.468
4.	Inflows from securities	3052	-	-
5.	Inflows from sale of own shares	3053	-	-
6.	Other inflows from financing activities	3054	-	-
II.	**Cash outflows from financing activities (from 3056 to 3060)**	3055	22.236.240	65.097.789
7.	Outflows from purchase of own shares	3056	-	-
8.	Cash outflows from subordinated obligations	3057	-	-
9.	Cash outflows from loans received	3058	22.236.240	65.097.789
10.	Cash outflows from securities	3059	-	-
11.	Other outflows from financing activities	3060	-	-
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	-	-
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	354.996	1.222.321
Г.	TOTAL NET CASH INFLOWS (3001 + 3014 + 3034 + 3048)	3063	61.588.305	81.546.403
Д.	TOTAL NET CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	58.500.854	96.663.683
Ђ.	NET INCREASE IN CASH (3063 - 3064)	3065	3.087.451	-
Е.	NET DECREASE IN CASH (3064 - 3063)	3066	-	15.117.280
Ж.	CASH AT THE BEGINNING OF THE YEAR	3067	45.160.177	40.297.749
З.	PROFIT ON EXCHANGE	3068	98.703	93.975
И.	LOSS ON EXCHANGE	3069	-	-
Ј.	CASH AT END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)	3070	48.346.331	25.274.444

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

КОМЕРЦИЈАЛНА ... БЕОГРАД

STATEMENT OF CHANGES IN EQUITY

from 01.01.2015 to 31.03.2015

(in RSD thousand)

ITEM	ADP code	Share and other capital (accounts 800,801,803)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Total (column 2-3+4+5+6-7+8-9)≥0	ADP code	Total (column 2-3+4+5+6-7+8-9)<0
1		2		3		4		5		6		7		8		9		10		11
Opening balance as of January 1st of preceding year	4001	17 191 466	4029		4057	22 843 084	4085	16 635 440	4113	1 791 268	4127	187 011	4141	6 687 971	4175		4209	64 962 218	4215	
Correction of material misstatement and changes to accounting policies in preceding year – increase	4002		4030		4058		4086		4114		4128		4142		4176					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4003		4031		4059		4087		4115		4129		4143		4177					
Adjusted opening balance as of January 1st of preceding year (number 1+2-3)	4004	17 191 466	4032		4060	22 843 084	4088	16 635 440	4116	1 791 268	4130	187 011	4144	6 687 971	4178		4210	64 962 218	4216	
Total positive other result for the period									4117	559 817	4131									
Total negative other result for the period									4118		4132	43 115								
Profit for the year													4145	4 785 577						
Loss for the year															4179					
Transfer from reserves to result due to release of reserves – increase													4146		4180					
Transfer from reserves to result due to release of reserves – decrease													4147		4181					
Transactions with owners, recorded directly in equity – increase	4005		4033		4061		4089						4148		4182					
Transactions with owners, recorded directly in equity – decrease	4006		4034		4062		4090						4149		4183					
Profit distribution – increase	4007		4035		4063		4091	4 000 000					4150		4184					
Profit distribution, and/or loss coverage – decrease	4008		4036		4064		4092						4151	4 000 000	4185					
Dividend payments	4009		4037		4065		4093						4152	604 620	4186					
Other – increase	4010		4038		4066		4094						4153	27 283	4187					
Other – decrease	4011		4039		4067		4095						4154	140 356	4188					
Total transactions with owners (number 11-12+13-14-15+16-17) ≥ 0	4012		4040		4068		4096	4 000 000					4155		4189					
Total transactions with owners (number 11-12+13-14-15+16-17) < 0	4013		4041		4069		4097						4156	4 717 693	4190					
Balance as of December 31st of preceding year (number 4+5-6+7+8+9-10+18-19 for columns from 2,3,4,5,6,8,9), for column 7 (number 4+6-5)	4014	17 191 466	4042		4070	22 843 084	4098	20 635 440	4119	2 351 085	4133	230 126	4157	6 755 855	4191		4211	69 546 804	4217	
Opening balance as of January 1st of the current year	4015	17 191 466	4043		4071	22 843 084	4099	20 635 440	4120	2 351 085	4134	230 126	4158	6 755 855	4192		4212	69 546 804	4218	
Correction of material misstatement and changes to accounting policies in preceding year – increase	4016		4044		4072		4100		4121		4135		4159		4193					
Correction of material misstatement and changes to accounting policies in preceding year – decrease	4017		4045		4073		4101		4122		4136		4160		4194					
Adjusted opening balance as of January 1st of the current year (number 21+22-23)	4018	17 191 466	4046		4074	22 843 084	4102	20 635 440	4123	2 351 085	4137	230 126	4161	6 755 855	4195		4213	69 546 804	4219	
Total positive other result for the period									4124	466 595	4138									
Total negative other result for the period									4125		4139	128 696								
Profit for the year													4162	207 932						
Loss for the year															4196					
Transfer from reserves to result due to release of reserves – increase													4163		4197					
Transfer from reserves to result due to release of reserves – decrease													4164		4198					
Transactions with owners, recorded directly in equity – increase	4019		4047		4075		4103						4165		4199					
Transactions with owners, recorded directly in equity – decrease	4020		4048		4076		4104						4166		4200					
Profit distribution – increase	4021		4049		4077		4105						4167		4201					
Profit distribution, and/or loss coverage – decrease	4022		4050		4078		4106						4168		4202					
Dividend payments	4023		4051		4079		4107						4169		4203					
Other – increase	4024		4052		4080		4108						4170		4204					
Other – decrease	4025		4053		4081		4109						4171		4205					
Total transactions with owners (number 31-32+33-34-35+36- 37) ≥ 0	4026		4054		4082		4110						4172		4206					
Total transactions with owners (number 31-32+33-34-35+36- 37) < 0	4027		4055		4083		4111						4173		4207					
Balance as of March 31st of the current year (number 24+25-26+27+28+29-30+38-39 for columns from 2,3,4,5,6,8,9), for the column 7 (number 24+26-25)	4028	17 191 466	4056		4084	22 843 084	4112	20 635 440	4126	2 817 680	4140	358 822	4174	6 963 787	4208		4214	70 092 635	4220	

NOTES

TO FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF 2015

Belgrade, May 2015

1. INCORPORATION AND OPERATION OF THE BANK

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

As at 30.09.2014, the largest voting shareholders of the Bank are:

1. Republic of Serbia and
2. EBRD, London

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

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

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

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

As of March 31st 2015, the Bank consisted of the Head Office in Belgrade located at 14, Svetog Save Street, 24 branches and 217 sub-branches.

As of March 31st, 2015, the Bank had 2,895 employees, and on 31st December 2014, the number of employees was 2,906. Tax ID number of the Bank is 100001931.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Statement of Compliance

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

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

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

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

2.2. Assessment Rules

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

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

2.3. Functional and Reporting Currency

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

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

BALANCE SHEET

The structure of the Bank's total balance sheet assets and liabilities as of 31 March 2015 with comparative data for 2014, prepared in the format prescribed by the Decision on forms and the contents of items in the forms for financial statements of banks (RS Official Gazette 71/2014 and 135/2014) can be seen in more detail from the following table:

In thousand RSD

ASSETS	31.03.2015. Amount	%	31.12.2014. Amount	%
Cash and cash funds held with the central bank	70,988,391	18.06	68,547,389	16.87
Financial assets at fair value through profit and loss, held for trading	148,166	0.04	121,634	0.03
Financial assets available for sale	95,483,500	24.30	95,481,249	23.50
Financial assets held to maturity	22,694	0.01	51,442	0.01
Loans and receivables due from banks and other financial institutions	26,335,525	6.70	34,737,605	8.55
Loans and receivables from customers	178,492,317	45.42	185,377,035	45.63
Investments in subsidiaries	5,480,888	1.39	5,480,888	1.35
Intangible assets	356,656	0.09	405,774	0.10
Property, plant and equipment	6,240,372	1.59	6,329,077	1.56
Investment property	2,827,842	0.72	2,581,144	0.64
Current tax assets	75,004	0.02	73,835	0.02
Deferred tax assets	127,530	0.03	-	-
Non-current assets held for sale and assets from discontinued operations	84,227	0.02	84,227	0.02
Other assets	6,326,000	1.61	6,990,225	1.72
TOTAL ASSETS	**392,989,112**	**100.00**	**406,261,524**	**100.00**

In thousand RSD

LIABILITIES	31.03.2015. Amount	%	31.12.2014. Amount	%
Deposits and other liabilities due to banks, other financial institutions and the central bank	21,835,405	5.56	23,743,018	5.84
Deposits and other liabilities due to customers	289,936,989	73.78	301,954,911	74.33
Subordinated liabilities	6,075,620	1.55	6,036,680	1.49
Provisions	1,795,842	0.46	1,640,595	0.40
Deferred tax liabilities	277,936	0.07	150,407	0.04
Other liabilities	2,974,685	0.76	3,189,109	0.78
Equity	70,092,635	17.84	69,546,804	17.12
TOTAL LIABILITIES	**392,989,112**	**100.00**	**406,261,524**	**100.00**

INCOME STATEMENT

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

In thousand RSD

	31.03.2015.	31.03.2014
INCOME	Total	Total
Interest income	5,088,885	5,485,593
Fee and commission income	1,404,876	1,309,397
Net gains on the financial assets held for trading	-	1,621
Net income from foreign exchange differentials and the effects of agreed currency clause	31,757	-
Other operating income	104,280	66,474

EXPENSES	Total	Total
Interest expense	1,627,904	2,120,155
Fee and commission expense	260,976	219,959
Net loss from financial assets held for trading	116	-
Net loss from financial assets available for sale	9,927	-
Net expense from exchange rate differentials and the effects of agreed currency clause	-	31,746
Net expense from impairment of financial assets and credit risk weighted off-balance sheet assets	1,391,544	593,844
Cost of salaries, allowances and other personnel expenses	1,003,626	1,053,786
Depreciation cost	206,101	204,177
Other expenses	1,921,672	1,432,156
Result of the period (profit)	**207,932**	**1,207,262**

CASH FLOW STATEMENT

In thousand RSD

Item	31.03.2015. Total	31.03.2014. Total
Cash inflows from operating activities	**6,966,099**	**6,370,543**
Inflow from interest	5,498,058	5,001,401
Inflow from fees	1,418,375	1,312,935
Inflow from other operating activities	48,717	55,669
Inflow from dividends and share in profit	949	538
Cash outflows from operating activities	**4,168,293**	**4,151,468**
Interest payments	1,383,904	1,640,210
Fee payments	261,431	222,088
Payments for gross salaries, allowances and other personnel expenses	879,434	690,270
Taxes, contributions and other duties paid	178,002	140,745
Payments for other operating expenses	1,465,522	1,458,155
Net cash inflow from operating activities before increase or decrease in loans and deposits	**2,797,806**	**2,219,075**
Decrease in lending and increase in deposits and other liabilities	**21,370,741**	**7,304,777**
Decrease in loans and receivables from banks, other financial organisations, the central bank and customers	15,511,912	-
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	5,858,829	-
Increase in deposits and other liabilities to banks, other financial organisations, the central bank and customers	-	7,304,777
Increase in lending and decrease in received deposits and other liabilities	**14,886,593**	**17,077,194**
Increase in loans and receivables from banks, other financial organisations, the central bank and customers	-	11,489,497
Increase in financial assets initially recognized at fair value through income statement, financial assets held for trading and other securities not held for investment	-	5,587,697
Decrease in deposits and other liabilities to banks, other financial organisations, central banks and customers	14,886,593	-
Net inflow of cash from operating activities before profit tax	**9,281,954**	**-**
Net outflow of cash from operating activities before profit tax	**-**	**7,553,342**
Paid profit tax	1,170	194,373
Paid dividends	120	591
Net inflow of cash from operating activities	**9,280,664**	**-**

Item	31.03.2015. Total	31.03.2014. Total
Net outflow of cash from operating activities	**-**	**7,748,306**
Cash inflow from investment activities	**11,370,221**	**3,995,615**
Inflow from investment securities	11,368,304	3,995,531
Inflow from the sales of intangible assets, property, plants and equipment	1,917	84
Net outflow of cash from investment activity	**17,208,438**	**10,142,268**
Outflow for investing in investment securities	17,132,691	10,044,643
Outflow for the purchase of intangible assets, property, plants and equipment	75,747	97,036
Outflow for the purchase of investment property	-	589
Cash outflow from investment activity	**5,838,217**	**6,146,653**
Cash inflow from financing activity	**21,881,244**	**63,875,468**
Inflow from borrowings	21,881,244	63,875,468
Cash outflow from financing activity	**22,236,240**	**65,097,789**
Outflow from borrowings	22,236,240	65,097,789
Net outflow of cash from financing activity	**354,996**	**1,222,321**
Total cash inflow	**61,588,305**	**81,546,403**
Total cash outflow	**58,500,854**	**96,663,683**
Net increase in cash	**3,087,451**	**-**
Net decrease in cash	**-**	**15,117,280**
Cash and cash equivalents at the start of the year	**45,160,177**	**40,297,749**
Exchange rate gains	98,703	93,975
Exchange rate loss	-	-
End of period cash	**48,346,331**	**25,274,444**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

Net interest income in the period from January – March 2015 totalled RSD 3,460,981 thousand and was RSD 95,543 thousand or 2.84% lower compared to the same quarter of the preceding year.

3.2. Fee and Commission Income and Expenses

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

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

Net fee income in the period from January – March 2015 amounted to RSD 1,143,900 thousand and was 4.99% or RSD 54,462 thousand higher than in the same period in 2014.

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

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

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

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

In the observed period of 2015 the Bank generated net loss from financial assets held for trade in the amount of RSD 116 thousand (SWAP transactions, investment units of Kombank Invest and shares of issuers – companies) and a loss from financial assets held for sale in the amount of RSD 9,927 (RS bonds and T-bills).

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

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

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

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

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

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

Loans and deposits in RSD, for which protection against risk was agreed by linking the RSD exchange rate to the EUR, to other foreign currency or to the growth of retail price index, were revalued in accordance with each specific loan contract. The difference between the nominal value of unpaid principal for loans or unpaid deposits and revalued amount is shown within receivables from loans or liabilities from deposits. Effects of this revaluation are recorded as income or expenses from the agreed currency clause.
Net gains from exchange rate differentials for the reporting period January – March 2015 amounted to RSD 31,757 thousand. The recorded net gains were mostly affected directly by the trends in RSD exchange rate against the basket of currencies (currencies EUR, USD and CHF) between the two observed reporting period as a form of protection from risk and management of the Bank's FX position.

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

3.5. Other Operating Income

In the overall other income of RSD 104,280 thousand, other operating revenues account for the largest share of 47.69 % (72.24%in the previous year) which mainly refers to the income from renting the real estate amounting to RSD 31,145 thousand. Other operating revenues came as a result of the compensation for mobile telephone expenses, court expenses and cost of utility services, and also as a result of income from damages paid by insurance companies. Within other income the most significant items relate to interest income from previous years generated from agriculture and retail operations in the total amount of RSD 46,972 thousand.

Dividends received from investment into shares of other legal entities in the amount of RSD 1,328 thousand are shown as income from dividends at the moment of their collection. Income from dividends is part of other income.

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

The Bank classifies its financial assets into the following categories: financial assets at fair value, whose changes in the fair value are shown in the Income Statement, loans and receivables, financial assets available for sale, and assets held to maturity. The classification depends on the purpose for which the financial assets have been acquired. The management classifies its financial investments at the time of initial recognition.

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

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

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

Net expenses from indirect write-off of loans and provisions are RSD 1,391,544 thousand and are RSD 797,700 thousand or 134.33 % higher than as of 31.12.2014 primarily due to the Bank's priority to maintain credit risk at the level acceptable for the Bank. Direct consequence of the increase in net expenses for this item was the increase in impairment allowance and provisions due to increased credit risk of several largest clients of the Bank, the most important of which are: Rudnap, Beohemija and Farmakom.

3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses amounting to RSD 1,003,626 thousand are by RSD 50,160 thousand or 4.76% lower compared to the same period last year.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 206,101 thousand increased compared to the period January – March, 2014 by RSD 1,924 thousand or 0.94 %, mainly due to the newly purchased fixed assets and intangible investments during the previous and this year.

3.9. Operating Expenses and Other Operating Expenses

Operating expenses and other operating expenses reached RSD 1,921,672 thousand having increased compared to the same period last year by RSD 489,516 thousand or 34.18%, primarily due to more restrictive regulations related to deposit insurance, consequence being the increase of expenses of RSD 75,358 thousand.

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

Operating expenses:

- costs of production services in the amount of RSD 519,018 thousand, followed by the highest sums for: rental costs of office space and equipment and advertising space in the amount of RSD 180,590 thousand, as well as the advertising and marketing costs in the amount of RSD 63,260 thousand and cost of equipment lease for printing services to the amount of RSD 15,808 thousand.

- intangible costs totalling RSD 593,998 thousand, the highest individual item being the cost of deposit insurance coming to RSD 361,252 thousand. The reason of such sudden increase in deposit insurance is the introduction by NBS of additional deposit insurance premium at the rate of 0.05% i.e. 50% of the regular premium and,

- cost of materials amounting to RSD 117,624 thousand.

Other expenses:

- Correction of interest from previous years for housing loans indexed in CHF, in accordance with the decree of the Serbian Government from March 2015. The interest rate was reduced to the original level and the total difference of the overcharged amount that resulted in income of RSD 161,131 thousand was recorded as expense for the current period.

- Adjustment of interest from previous years from loans to legal entities in the amount of RSD 112,839 thousand for clients Beohemija and Interkomerc.

BALANCE SHEET

Total balance sheet sum as of 31.03.2015 amounts to RSD 392,989,112 thousand, which is a decrease from 31.12.2014 of RSD 13,272,412 thousand or 3.27%. The decrease came mostly as a result of a decrease in loans and receivables from the Bank's customers on the assets side and a decrease in deposits on the liabilities side.

ASSETS

In total Bank's assets, loans and deposits to customers had a dominant share of 52.12% (2014: 54.18%), financial assets available for sale with a share of 24.30% (2014: 23.50%), cash and funds at the central bank with a share of 18.06% (2014: 16.87%) and investment in subsidiaries 1.39% (2014: 1.35%).

3.10. Cash and Funds with the Central Bank

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

Cash and assets with the central bank as of 31.03.2015 amount to RSD 70,988,391 thousand and form 18.06% of the Bank's total assets (16.87 % as of 31.12.2014). Compared to 31.12.2014 this item is higher by RSD 2,441,002 thousand which is a result of higher net inflow from repaid loans and inflow of cash from the sale of securities at maturity, compared against the decrease in cash from withdrawal of customer deposits.

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

Investment in securities at fair value in the amount of RSD 148,166 thousand and financial assets available for sale in the amount of RSD 95,483,500 thousand together make up a percentage of share of 24.34% of total assets (2014: 23.53%) increased from 2014 by RSD 28.783 thousand. Investment in financial assets at fair value intended for trade accounts for almost all realized increase and amounted to RSD 26,532 thousand.

In the structure of financial assets available for sale as of 31.03.2015 in RSD RS bonds had the largest share (77.28%), followed by RS T-bills (16.13%). As for securities in foreign currency, they are composed of RS bonds (80.06%), while T-bills of the Republic of Serbia account for 15.52%.

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

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

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

Net positive or negative exchange rate differentials resulting from business transactions in foreign currency and from restating the balance sheet items in foreign currency, were accounted for in the income statement as exchange rate gains or losses.
As of 31.03.2015 Loans and Receivables from Banks and Other Financial Organisations amount to RSD 26,335,525 with a percentage of share of 6.70% of total assets (2014: RSD 34,737,605 thousand) and are lower by RSD 8,402,080 thousand. Decrease from 31.12.2014 came mostly from a decrease in repo transaction in the amount of RSD 7,000,000 thousand.

Loans and Receivables from Customers as of 31.03.2015 amounted to RSD 178,492,317 thousand with a percentage of share of 45.42% of total assets (2014: RSD 185,377,035 thousand) dominate the assets structure. Total lending was lower by RSD 6,884,718 thousand, primarily due to early repayment of corporate loans in the amount of approx. RSD 4,600,000 thousand (of which the client Nelt only accounts for RSD 1,210,000 thousand) and the increase in impairment allowance as a result of more restrictive credit risk assessment policy and the new credit risk assessment for certain clients Beohemija, Farmakom and Rudnap whose account has been blocked since 27.02.2015.
Since the start of 2015 there has been a tendency of declining lending caused by the collection of a portion of due loans, early repayment of some loans and decreased demand for loans which, with the implementation of more restrictive policy for credit risk assessment in the Bank resulted in a decrease in lending to banks and customers, compared to 2014.

3.13. Investment in Subsidiaries

Investment in subsidiaries are RSD 5,480,888 thousand and account for 1.39% of total assets.

Ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with related entities, as part of regular operation. These include primarily loans and deposits. Transactions with related entities have been carried out on market terms.

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

All these items account for as little as 4.08% of total assets, of which the largest part is property, plants and equipment and investment property in the amount of 2.31%, other assets 1.61% and intangible assets in the amount of 0.09%. Other assets in the amount of RSD 6,326,000 thousand decreased from 2014 by RSD 664,225 thousand mostly as a result of effect of a decrease in receivables from the purchase and sale of foreign currency on the foreign exchange market that was greater than the increase in foreclosed assets and other categories of other assets.

Receivables from court disputes in the amount of RSD 209,085 thousand have been fully provisioned and these refer to the client KMS.

Investment in the capital of banks, foreign and local legal entities as of 31.03.2015 amount to RSD 1,263,324 thousand, of which stake in the equities of foreign entities account for RSD 661,482 thousand and these are equities in Master and Visa International.

LIABILITIES

In the period January – March 2015 the structure of liabilities was still dominated by deposits and other liabilities to banks and customers and the capital with a total percentage of 97.18% (2014: 97.29%) of total liabilities. The share of capital in total liabilities is 17.84% (2014:17.12%).

Other items account for 2.82% of total liabilities with the largest part of this item being subordinated liabilities with a percentage of 1.55%.

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

Deposits are shown at the level of deposited amounts, which can be increased by calculated interest, which depends on the contractual relationship between the depositor and the Bank. The Bank agreed with the depositors an interest rate that depended on the amount of deposit.

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

In the balance sheet, deposits are shown as transaction and other deposits of the financial sector and deposits from other customers.

Deposits and Other Liabilities to Customers account for the largest share in the liabilities in the amount of RSD 289,936,989 thousand that account for 73.78% of total liabilities (2014: 74.33%), followed by deposits and other liabilities to banks, other financial organisations and the central bank in the amount of RSD 21,835,405 thousand with a share of 5.56% (2014: 5.84%).

When compared to 2014 the total decrease in deposits was RSD 13,925,535 thousand: transaction deposits were lower by RSD 11,285,761 thousand, while other deposits recorded a decrease in the amount of RSD 2,639,774 thousand. Net decrease in transaction deposits came as a result of a greater decrease in RSD transaction deposits in the amount of RSD 13,703,208 thousand compared to the growth of transaction deposits in foreign currency of RSD 2,417,446 thousand. The structure of transaction deposits is still dominated by deposits in the local currency with a share of 63.24%, while the remaining 36.76% are deposits in foreign currency. Other deposits are dominated by foreign currency deposits with a share of 89.24% while dinar deposits account for 10.76%. Foreign currency savings increased by EUR 33 million.

Borrowings

Borrowings, as part of the deposits and other liabilities to banks and other customers, amounts to RSD 28,500,636 thousand with a percentage of share in total liabilities of 7.25% decreased from 2014 of RSD 660,953 thousand, as a result of repayment of due tranches.

Borrowings from the following foreign creditors account for the largest share in the item – Liabilities to Foreign Banks:

1. EFSE (RSD 5,650,119 thousand)
2. GGF (RSD 11,975,137 thousand)
3. FMO (RSD 2,404,306 thousand)
4. IFC (RSD 1,830,230 thousand)
5. EBRD (RSD 4,293,404 thousand)

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

1. LEDIB 1 and 2 (Loan from the Kingdom of Denmark) - RSD 15,241 thousand,
2. Italian Government – RSD 656,738 thousand,
3. European Investment Bank (EIB) – RSD 5,523,828 thousand,
4. European Agency for Reconstruction (EAR) – RSD 168,109 thousand,
5. KfW – RSD 6,010,765 thousand.

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

3.16. Subordinated Liabilities

In accordance with the regulations of the National Bank of Serbia regarding capital requirements and implementation of Basel II standard, in 2011 the Bank strengthened its capital base by taking out a subordinated loan from the IFC. The amount of subordinate loan as of 31. March 2015 was RSD 6,075,620 thousand or EUR 50,000 thousand less accrued expenses for liabilities recorded at depreciated value with the implementation of the effective interest rate of RSD 23,203 thousand. The loan was approved by the International Finance Corporation.

3.17. Provisions

The Bank's provisions in the amount of RSD 1,795,842 thousand consist of provisions for: coverage of liabilities (court disputes) long-term employee salaries and provisions for losses from off-balance sheet assets. Compared to 2014, in the observed period there was an increase in provisions in the amount of RSD 155,247 thousand. Net increase came as a result of the increase in provisions for court disputes in the amount of RSD 178,667 thousand and a decrease in provisions for losses from off-balance sheet assets in the amount of RSD 23,420 thousand. The increase came mostly from additional provisions for court disputes, specifically the court dispute with Inex-Interexport in bankruptcy where an increase of RSD 56,559 thousand resulted from the calculated default interest with a simultaneous increase in liabilities for default interest and exchange rate differentials in connection with the dollar amount from the legal action against the Republic of Serbia in the amount of RSD 82,931 thousand. Apart from these provisions, additional provisioning was carried out for two new cases in the amount of RSD 39,176 thousand.

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

3.18. Other liabilities

Compared to 2014, other liabilities were RSD 2,974,685 thousand and were lower by RSD 214,424 thousand.
Percentage of share of other liabilities in the total assets is 0.76% (2014: 0.78%).

3.19. Capital

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

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

As at 31 March 2015, the Bank's capital consists of:

In RSD thousand	2015.	2014.
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from the profit	20,635,440	20,635,440
Revaluation reserves	2,709,161	2,242,565
Unrealized losses based on securities available for sale		
Actuarial gain	(358,823)	(230,126)
Share capital	108,520	108,520
Reserves	23,094,298	22,756,399
Accumulated profit	6,963,787	6,755,855
Total	70,092,635	69,546,804

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

The capital adequacy ratio of the Bank as at 31 March 2015 was calculated based on the financial statements and stands at 17.34% having implemented the applicable decisions of the National Bank of Serbia for 2015.

Moreover, the Bank is bound to maintain the cash portion of capital at the level of EUR 10,000 thousand. As at 31.03.2015, the cash portion of capital is above the prescribed level.

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

The structure of the share capital – ordinary shares as at 31.03.2015 is as follows:

Shareholder name	% of share
Republic of Serbia	41.74
EBRD, LONDON	24.43
IFC CAPITALIZATION FUND LP	10.15
DEG-DEUTSHE INVESTITIONS	4.60
SWEDFUND INTERNATIONAL	2.30
Jugobanka AD Beograd in bankruptcy	1.91
EAST CAPITAL (lux) BALKAN FUND	1.37
Invej d.o.o. Beograd	1.24
Evropa osiguranje AD Beograd in bankruptcy	1.17
Dunav osiguranje	1.02
UNICREDIT BANK Srbija – custody account 2	0.89
UNICREDIT BANK Srbija AD	0.75
STANKOM CO. d.o.o. Beograd	0.74
EAST CAPITAL (lux) EASTERN E	0.70
Other	6.48
	100.00

4. RELATIONS WITH SUBSIDIARIES

4. A . Balance as at 31.03.2015.

RECEIVABLES RSD thousand

Subsidiary	Loans and advances	Interests and fees	Other assets	Impairments	Net BS exposure	Off-balance	Total
1. Kom. banka AD Budva	6,429	858	-	-	7,287	-	7,287
2. Kom.banka AD Banja Luka	601,077	12	863	-	601,952	-	601,952
3. Kombank INVEST	-	-	1	-	1	199	200
TOTAL	**607,506**	**870**	**864**	**-**	**609,240**	**199**	**609,439**

LIABILITIES RSD thousand

Subsidiary	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom. banka AD Budva	474,359	-	1,679	476,038
2. Kom.banka AD Banja Luka	11,530	-	-	11,530
3. Kombank INVEST	110	-	-	110
TOTAL:	**485,999**	**-**	**1,679**	**487,678**

INCOME AND EXPENSES for period 01.01. – 31.03.2015 RSD thousand

Subsidiary	Interest income	Fees and commission income	Interest expenses	Fees and commission expenses	Net income / expenses
1. Kom. banka AD Budva	27	383	-	(494)	(84)
2. Kom.banka AD Banja Luka	2,288	556	-	(96)	2,748
3. Kombank INVEST	-	105	(8)	-	97
TOTAL:	**2,315**	**1,044**	**(8)**	**(590)**	**2,761**

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange loss of RSD 7,090 thousand.

4. B . Balance as at 31.12.2014

RECEIVABLES RSD thousand

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

LIABILITIES RSD thousand

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

INCOME AND EXPENSES for period 01.01.- 31.03.2014

RSD thousand

Subsidiary	Interest income	Fee and commission income	Interest expense	Fee and commission expense	Net income / expense
1. Kom. banka AD Budva	4,823	278	-	(192)	4,909
2. Kom.banka AD Banja Luka	2,589	204	-	(55)	2,738
3. Kombank INVEST	-	16	(12)	-	4
TOTAL:	**7,412**	**498**	**(12)**	**(247)**	**7,651**

Based on the transactions with subsidiaries, Komercijalna Banka ad Beograd recorded net foreign exchange gains in the amount of RSD 4,443 thousand.

5. RISK MANAGEMENT

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

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

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

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

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

Risk Management System

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

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

Risk Management Strategy sets out:

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

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

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

Policies for managing certain risk types define the following:

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

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

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

Competencies

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

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

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

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

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

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

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

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

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

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

Risk Management Process

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

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

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

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

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

Risk Types

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

5.1. CREDIT RISK

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

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

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

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

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

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

Credit Risk Management

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

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

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

The basic principles of credit risk management are as follows:

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

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

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

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

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

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

Basic credit risk alleviating techniques are:

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

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

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

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

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

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

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

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

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

Downgrade Risk

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

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

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

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

Risk of Change in Value of Assets

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

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

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

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

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

Individual Assessment

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

Group Assessment

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

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

Assessment of Provisions for Losses on Off-Balance Sheet Items

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

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

5.1.1. Maximum Credit Risk Exposure

Maximum credit risk exposure as of December 31, 2014 and 2013 is presented in the table below without taking into account any collateral or any other sort of credit risk hedge. The stated values are presented in gross and net carrying amounts (after impairment effects).

Maximum Credit Risk Exposure before Collateral or any Other Improvements

	March 31, 2015		December 31, 2014	
	Gross	Net	Gross	Net
I. Assets	**399,502,115**	**373,739,613**	**411,491,955**	**387,248,783**
Cash and cash funds held with the central bank	70,988,391	70,988,391	68,547,389	68,547,389
Loans and receivables due from banks and other financial institutions	26,735,754	26,335,525	35,106,194	34,737,605
Loans and receivables due from customers	203,077,279	178,492,317	208,462,012	185,377,035
Financial assets	95,754,510	95,654,361	95,774,547	95,654,325
Other assets	2,946,181	2,269,019	3,601,813	2,932,429
II. Off-balance sheet items	**27,785,136**	**27,240,132**	**30,165,789**	**29,597,365**
Payment guarantees (Note 39.1)	4,752,896	4,596,056	4,767,131	4,626,118
Performance bonds (Note 39.1)	7,479,423	7,365,020	7,883,510	7,734,385
Irrevocable commitments	15,152,582	15,152,582	16,715,960	16,715,960
Other items	400,236	126,474	799,188	520,902
Total (I+II)	**427,287,251**	**400,979,745**	**441,657,744**	**416,846,148**

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

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

March 31, 2015

	Housing loans	Cash loans	Agricultural loans	Other loans	Micro business	Total retail	Corporate customers	Total	Due from Banks
Loans not matured and not provided for	-	-	-	-	-	-	2,119,172	2,119,172	23,923,917
Loans matured and not provided for	-	-	-	-	-	-	1,423,644	1,423,644	2,411,608
Group-level impaired	37,354,273	15,204,686	5,091,972	7,246,167	5,799,328	70,696,425	90,765,580	161,462,006	400,228
Individually impaired	950,709	-	108,644	-	1,011,266	2,070,620	36,001,837	38,072,457	-
Total	**38,304,982**	**15,204,686**	**5,200,616**	**7,246,167**	**6,810,594**	**72,767,045**	**130,310,234**	**203,077,279**	**26,735,754**
Impairment allowance	**599,829**	**884,115**	**409,733**	**727,834**	**1,061,184**	**3,682,694**	**20,902,268**	**24,584,962**	**400,228**
Group-level impairment allowance	389,822	884,115	384,048	727,834	919,448	3,305,268	9,310,228	12,615,496	400,228
Individual impairment allowance	210,006	-	25,684	-	141,736	377,426	11,592,040	11,969,466	-
Net carrying value	**37,705,154**	**14,320,571**	**4,790,883**	**6,518,334**	**5,749,410**	**69,084,351**	**109,407,966**	**178,492,317**	**26,335,525**

December 31, 2014

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

Impaired Loans and Receivables

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

Receivables Matured but not Impaired

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

Receivables not Matured and not Impaired

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

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

March 31, 2015

	Housing loans	Cash loans	Agricultural loans	Other loans	Micro business	Total retail	Corporate customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	2,119,172	2,119,172	23,904,639
Medium (IR 3)	-	-	-	-	-	-	-	-	19,278
Total	-	-	-	-	-	-	**2,119,172**	**2,119,172**	**23,923,917**

December 31, 2014

	Housing loans	Cash loans	Agricultural loans	Other loans	Micro business	Total retail	Corporate customers	Total	Due from Banks
Low (IR 1, 2)	-	-	-	-	-	-	2,313,323	2,313,323	27,510,292
Medium (IR 3)	-	-	-	-	-	-	-	-	22,935
Total	-	-	-	-	-	-	**2,313,323**	**2,313,323**	**27,533,227**

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

March 31, 2015

	Housing loans	Cash loans	Agricultural loans	Other loans	Micro business	Total retail	Corporate customers	Total	Due from Banks
Up to 30 days past due	-	-	-	-	-	-	1,253,929	1,253,929	2,411,608
31 - 90 days past due	-	-	-	-	-	-	-	-	-
Over 90 days past due							162,545	162,545	-
Total	-	-	-	-	-	-	**1,416,474**	**1,416,474**	**2,411,608**

December 31, 2014

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

5.1.2. Loans with Altered Initially Agreed Terms

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

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

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

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

5.1.3. Concentration Risk

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

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

5.1.4. Credit Risk Hedges (Collaterals)

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

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

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

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

For protection against changes in the market value of collaterals (mortgages, pledge liens, securities, etc.) the appraised collateral value is adjusted for the predefined haircut percentage dependent on the type and location of collateral, which is reviewed at least annually, o more frequently, as appropriate.

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

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

5.2. LIQUIDITY RISK

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

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

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

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

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

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

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

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid/Cash Liquidity Ratio	
	31.03.2015.	31.12.2014.	31.03.2015.	31.12.2014.
	3.49	2.84	3.01	2.52
Average for the period	3,25	3,29	2,89	2,88
Maximum for the period	3,52	4,40	3,19	4,09
Minimum for the period	2,80	1,7	2,49	1,51

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	31.03.2015.	31.12.2014.
Cumulative GAP up to 3	Max (10%)	11%	11%
	Max (20%)	11%	12%

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

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

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

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

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

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

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

5.3. MARKET RISK

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

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

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

5.3.1. Interest Rate Risk

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

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

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

	Лимити	31.03.2015.	31.12.2014.
Relative GAP	Max 15%	0,55%	0,69%
Mismatch ratio	0.75 – 1.25	1,01	1,01

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

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

Compliance with internally defined limits of economic value of equity:

	31.03.2015.	31.12.2014.
As at	10.70%	8.50%
Average for the period	9,85%	8,06%
Maximum for the period	9,60%	10,86%
Minimum for the period	9,24%	4,82%
Limit	20%	20%

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

5.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

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

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

Overview of the total currency risk balance and legally defined currency risk ratio at March 31:

	31.03.2015.	31.12.2014
Total currency risk balance	2.029.395	938.820
Currency risk ratio	6,50%	2,90%
Legally-defined limit	20%	20%

5.4. OPERATIONAL RISK

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

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

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

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

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

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

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

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

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

5.5. THE BANK'S INVESTMENT RISKS

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

5.6. EXPOSURE RISK

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

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

- The Bank's exposure to a single entity or a group of related entities cannot exceed 25% of the Bank's equity;
- The Bank's exposure to a party that is related to the Bank cannot exceed 5% of the Bank's equity, while total exposure to the Bank's related parties cannot exceed 20% of the Bank's equity;
- The aggregate amount (sum) of the Bank's large exposures cannot exceed 400% of the Bank's equity.

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

5.7. COUNTRY RISK

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

- Political and economic risk relates to the likelihood of losses due to the inability to collect the Bank's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;

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

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

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

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

5.8. CAPITAL MANAGEMENT

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

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

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

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

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

Capital adequacy ratio	У хиљадама динара	
	31.03.2015.	**31.12.2014.**
Core capital	31.820.031	29.447.746
Supplementary capital	4.975.708	5.507.761
Deductible items	(5.555.355)	(5.555.355)
Capital	**31.240.384**	**29.400.152**
Credit risk-weighted assets	157.161.043	156.145.495
Operational risk exposure	20.531.683	19.093.050
Foreign currency risk exposure	2.029.392	-
Capital adequacy ratio (minimum 12%)	**17.38%**	**16.78%**

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

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

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

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

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

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

- it is based on risk identification and measurement;
- it provides comprehensive assessment and monitoring of risks the Bank is or may be exposed to;
- it provides adequate level of internally available capital according to the Bank's risk profile,

- it is included in the Bank's management system and decision making process; and
- it is subject to regular analysis, supervision and review.

Stages of the internal capital adequacy assessment include the following:

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

6. EVENTS AFTER THE BALANCE SHEET

A) At the meeting held on 29.04.2015 the Board of Directors of the Bank passed a decision on issuing an invitation to the regular General Meeting of Shareholders to be held on 04.06.2015 with the draft agenda:
   - Decision on Release from Duty and Appointment of the Chairperson of the General meeting of Shareholders
   - Annual Report for 2014
     a) Decision on Adoption of the Annual Report for 2014
     b) Decision on Adoption of the Regular Annual Financial Statements of the Bank for 2014 with the External Auditor's Opinion
     c) Decision on Distribution of a Portion of Retained Earnings from 2014 and Retained Accumulated profit from Previous Years

B) A rescheduling of liabilities that the company Sevojno copper rolling mill owes to the parent bank in the amount of EUR 6,7 million.
   Development Fund of the Republic of Serbia passed a Decision No. 172 of 18.03.2015 granting a guarantee to a period of 10 years and the Decision became effective with the passing of the Conclusion by the Government of the Republic of Serbia 05 No. 42-3291/2015 of 26.03.2015 which recommended the Development Fund of the Republic of Serbia to issue/annex the guarantee in favour of the parent bank at the order of the company Sevojno rolling mill.

C) Sojaprotein AD Bečej made an early repayment of a loan in the amount of EUR 3,0 million on 20 and 21. 04.2015.

7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet positions in Dinars (RSD) on 31 March 2015 and 31 December 2014 for certain main currencies were as follows:

Currencies	Official NBS rate	
	2015	2014
USD	111.4240	99.4641
EUR	120.2153	120.9583
CHF	114.8188	100.5472

In Belgrade
On 14.05.2015

Persons responsible for drafting the
financial statements

КОМЕРЦИЈАЛНА БАНКА А.Д. БЕОГРАД * БЕОГРАД 4

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STATEMENT

In our opinion, quarterly financial statements for the period 01/01/2015 to 30/09/2015 present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the IAS and IFRS, as published by 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 Director of the Accounting Division	Savo Petrović Executive Director for Finance and Accounting

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