REPORT

on Disclosure of Data and Information of
Komercijalna banka A.D. Beograd for the year 2014

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1. INTRODUCTION

- Komercijalna banka AD Beograd (hereinafter: Bank) in accordance with the Law on Banks and the Decision on Disclosure of Data and Information by Banks, further below publishes the Report for the year 2014.
- This Report contains qualitative and quantitative information as prescribed by the above mentioned Decision.
- The Report shall be publicized on the Bank's Internet domain (www.kombank.com).

THE EXECUTIVE BOARD OF THE BANK

Andrijana Milanović	Dragan Santovac
Member of the Executive Board	**Deputy President of the Executive Board**

2. GENERAL INFORMATION ABOUT THE BANK

- Komercijalna banka AD Beograd is the second largest bank in the Serbian market, with market share of over 13,7%. The registered seat of Komercijalna banka AD Beograd (hereinafter: Bank) is in Belgrade, 14, Svetog Save Street. Clients have at their disposal the largest network of 218 branches and sub-branches throughout Serbia and another nearly 40 branches and sub-branches within the independent banks in Montenegro and Bosnia and Herzegovina.
- The Bank's largest shareholder is the Republic of Serbia (41,74%), which has the strategic agreement with the second largest shareholder EBRD (24.43%). Among the shareholders of Komercijalna Banka there are also a number of internationally renowned professional investors (IFC – 10,15%, Swed Fund – 2,30%, DEG – 4,60%...), as well as different powerful domestic public and private companies.

3. RISK MANAGEMENT

3.1. Risk Management Strategy

- The Bank has established the comprehensive and reliable risk management system, which allows for management of all risks that the Bank is or may be exposed to on the basis of all business operations and which is proportionate to the nature, scope and complexity of Bank's business activities. The established system of risk management ensures that the risk profile is in line with the determined propensity towards risks, and/or the risk profile of the Bank.
- Risk management system at the Bank's level is defined by the following internal legal documents:
  - Risk Management Strategy, Capital Management Strategy and Capital Management Plan;
  - Risk Management Policies;
  - Risk Management Procedures;
  - Methodologies for Managing Individual Risks;
  - Other internal documents.
- Risk Management Strategy regulates the uniform and consistent managing of risks to which the Bank is or may be exposed in its operations and the same is aligned with the Bank's Business Policy and Strategy.
- The implementation of the Risk Management Strategy shall be the responsibility of the competent authorities of the Bank and those organizational units which implement and participate in risk management system.

  General Meeting of Shareholders
  - adopts the Bank's business policy and its strategies;
  - renders decisions to increase the capital, and/or decides on equity investments in another bank or other legal entities, and also on level of investments in fixed assets of the Bank.

  Board of Directors
  - adopts the draft business policy and Bank's strategy and submits the same to the General Meeting of Bank's Shareholders for adoption;
  - adopts risk management strategy and policies, along with capital management strategy;
  - adopts Business Continuity Plan and Disaster Recovery Plan;
  - establishes the internal controls system and supervises its efficiency;
  - determines the internal organization, and/or organizational structure of the Bank, which provides separation of duties, powers and responsibilities of the employees in a manner that prevents conflict of interest and allows for transparent and documented process of making and implementing decisions;
  - adopts the policy governing the salaries and other allowances and benefits of Bank's employees;
  - supervises the work of the Executive Board;
  - adopts the program and plan of the internal audit of the bank and the methodology of its operations;
  - ensures the implementation of the internal capital adequacy assessment process and its compliance with the strategic objectives of business operations.

  Executive Board

  proposes and implements the business policy and the strategy of the Bank, the risk management strategy and policies, along with the capital management strategy;;
  - adopts and analyzes the efficiency of implementation of procedures for risk management, which define more closely the process of identifying, measuring and assessment of risk and risk management and reports to the Board of Directors in connection with those activities;
  - implements the Business Continuity Plan and Disaster Recovery Plan, revises them in line with business changes and prompts continuous testing.
  - reports to the Board of Directors on efficiency of implementation of defined risk management procedures.

- adopts its Operating Rules of Procedure.

Audit Committee

- analyzes and adopts the Bank's draft strategies and policies pertaining to risk management and internal controls system which are submitted to the Board of Directors for review and adoption;
- analyzes and supervises the application and adequate implementation of adopted strategies and policies for risk management along with the implementation of internal controls system;
- at least once a month it reports to the Board of Directors on its activities and identified irregularities and proposes the manner to eliminate such irregularities, and/or the manner to enhance the policies and procedures for risk management and implementation of internal controls system.

Asset/Liability Management Committee (ALCO)

- monitors the Bank's exposure to risks that arise from the structure of its balance sheet liabilities and accounts receivable and off-balance sheet items, proposes the measures for managing interest rate risk and liquidity risk and performs other tasks as stipulated by the internal legal documents of the Bank.

Credit Committee

- decides on loan applications within the framework established by the Bank's internal documents, analyzes the Bank's exposure to credit, interest rate and currency risk, analyzes the loan portfolio and applies the findings of the internal audit within the competence of the Committee, and also proposes the measures to the Bank's Executive Board. Performs other tasks in line with the Bank's internal documents and by order of the Executive Board.

Risk Management Function

- independent business function responsible for risk management, which performs the following:
  - defines and proposes for adoption the strategy and policies of risk management;
  - defines and proposes for adoption the procedures and methodologies of risk management;
  - develops models and methodologies for risk identification, measuring, mitigation, monitoring and control,
  - identifies, measures, assesses, monitors and manages the risks which the Bank is exposed to in its operations;
  - reports to the competent authorities of the Bank on risk management (Bank's Board of Directors, Audit Committee, Executive Board, Asset/Liability Management Committee, Credit Committee...).

Compliance Division

- responsible for:
  - identification, monitoring, managing the compliance risk of the Bank;
  - at least once a year identifies and assesses the main Bank's compliance risks and proposes the plans for managing such risks, of which it prepares the report and then submits the same to the Executive Board and the Audit Committee.

Internal Audit Function

- conducts independent evaluation of the risk management system and performs a regular assessment of adequacy, reliability and efficiency of the internal controls system.

- By its Risk Management Strategy the Bank included the following:
  - overview and definition of all the risks which the Bank is, or may be exposed to;
  - long-term objectives, established by the Bank's Business Policy and Strategy, and also propensity to risks as determined in accordance with those objectives;
  - basic principles of assuming and managing the risks;
  - basic principles of internal capital adequacy assessment process of the Bank.
- The Bank has identified and defined the risks to which it is exposed, or to which it may be exposed in its operations, as follows:
- **Credit risk** is the risk of possible negative effects on financial result and capital of the Bank that might occur due to debtors' failure to discharge their liabilities to the Bank. Credit risk includes:
  - **Residual risk** - risk that the credit risk mitigation techniques may be less efficient than expected, or that their implementation/use has an insufficient impact on reduction of all the risks to which the Bank is exposed.
  - **Dilution Risk**– is the risk of possibility of occurrence of adverse effects on Bank's financial result and capital due to reduced value of purchased receivables as a result of cash or non-cash liabilities of the former creditor to the debtor.
  - **Settlement/Delivery Risk** – is the possibility of adverse effects on the Bank's financial result and capital arising from unsettled transactions or counterparty's failure to deliver in free delivery transactions on the due settlement/delivery date.
  - **Counterparty Risk** – is the possibility of occurrence of adverse effects on the Bank's financial result and capital arising from counterparty's failure to fulfill his part of the deal in a transaction before final settlement of cash flows of the transaction.

  - **Credit – Foreign Exchange Risk** – is the possibility that the Bank shall suffer the loss due to debtor's failure to discharge his liabilities within the agreed time limits and which arises due to adverse effect of changes in RSD exchange rate on debtor's financial position.
  - **Environmental Risk** (risk of environmental and social protection) – risk of occurrence of adverse effects on Bank's financial result, capital and reputation due to event which has or is likely to have a material adverse effect on the environment, health or safety, or the community as a whole.
- **Concentration Risk** is the risk which directly or indirectly arises from exposure of the Bank to the same or similar risk factor or type of risk, such as exposure to one party or a group of related parties, industries, geographic areas, types of products and activities, credit protection instruments, financial instruments, commodities…
- **Investment Risk** is the risk which arises from Bank's investment in other legal entities and fixed assets.
- **Country Risk** is the risk relating to the country of origin of the entity to which the Bank is exposed, or the risk of possible negative effects on the financial result and capital of the Bank due to Bank's inability to collect claims from such entity/debtor for reasons arising from political, economic or social conditions in such entity's/debtor's country of origin. Country risk includes the following risks:
  - **political and economic risk**, which means the probability of loss due to the inability of the Bank to collect the receivables due to the limitations imposed by state laws and bylaws and other authorities of the country of origin of the debtor, as well as general and systemic conditions in that country;
  - **transfer risk**, which means the probability of loss due to inability to collect the receivables denominated in a currency other than the currency of the country of origin of the debtor and due to limitations in payments of liabilities to the creditors from other countries in a particular currency as determined by legislation of the state and other authorities of the country of the debtor.
- **Operational Risk** is the risk of possible occurrence of adverse effects on Bank's financial result and capital due to unintentional and intentional omissions in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to occurrence of unforeseen external events. Operational risk includes legal risk.
  - **Legal risk** is the risk of occurrence of adverse effects on Bank's financial result and capital on the basis of court or out-of-court proceedings in connection with Bank's operations (labor relations, contracts and torts…)
- **Liquidity Risk** is the risk of possible negative effects on the financial result and capital of the Bank caused by the Bank's inability to meet all its due obligations, on account of:
  - **Withdrawal of the existing funding sources,** or inability to obtain new sources of funding (funding liquidity risk), or
  - **Difficulty of converting assets into liquid assets due to market disruption (market liquidity risk).**
- **Interest Rate Risk** is the risk of possible negative effects on the financial result and capital of the Bank arising from positions in the banking book due to adverse changes in interest rates.
- **Market Risks** are the risks of possible occurrence of adverse effects on Bank's financial result and capital on the basis of losses in the balance sheet and off-balance sheet positions due to market price movements, and the same include the following:
  - **Foreign Exchange Risk** is the risk of occurrence of negative effects on the financial result and capital of the Bank caused by changes in exchange rates for the items that are kept in the banking book and the trading book.
  - **Price Risk** based on debt and equity securities is the risk of possible occurrence of negative effects on Bank's financial result and capital due to losses caused by market price fluctuations of debt and equity securities in the trading book.
  - **Commodity Risk** is the risk of occurrence of adverse effects on the financial result and capital of the Bank due to losses caused by the movement of prices of commodities in the market.
  - **Options Risk** is the risk of possible occurrence of negative effects on Bank's financial result and capital due to losses caused by movement of prices of options in the market.

  The Bank is not exposed to options risk or commodity risk.
- **Compliance Risk** is the risk of possible occurrence of negative effects on the financial result and capital of the Bank due to Bank's failure to comply its operations with the law, bylaws, its internal documents, procedures for prevention of money laundering and financing of terrorism, as well as with the rules of profession, sound business practices and business ethics and in particular encompasses the risk of sanctions by the regulatory authority, risk of financial losses and reputational risk.
  - **Reputational Risk** is the risk of possible occurrence of adverse effects on Bank's financial result and capital due to the loss of public confidence and unfavorable public attitude about the Bank's business operations, irrespective of whether there exist the grounds for it or not.
- **Strategic Risk** is the risk of probable negative effects on Bank's financial result or capital due to lack of appropriate business policy and strategy, their inadequate implementation and also due to changes in environment in which the

Banks operate, or Bank's failure to properly react to such changes.

Long-term Objectives

- Long-term objectives for Bank's risk management are as follows:
  - development of activities in line with the Business Strategy and opportunities and market development in order to create a competitive advantage;
  - avoiding or minimizing the risk in order to maintain the business operations within the acceptable level of risk;
  - minimizing negative effects on Bank's capital;
  - maintaining the required level of capital adequacy;
  - diversification of risks to which the Bank is exposed.
- The objectives of risk management are aligned with the Bank's Business Plan and can be modified during the year.
- The process of risk management shall include clearly defined and documented risk profile, along with harmonizing the risk profile with the propensity of the Bank to assume risks.
- Propensity to risks shall imply the Bank's intention to assume risks in order to accomplish its strategies and policies and to establish this assumption to be at acceptable risk level.

Basic principles of risk assumption and management

- The basic principles of risk assumption:
  - establishing explicit and clear rules for managing the individual types of risks, with associated policies and procedures for management of individual risk types with corresponding objectives of actions to be taken by the Bank;
  - gathering of complete, timely and truthful information important for risk management and provision of adequate capacities for safekeeping and processing of data;
  - conservative risk taking – implies that the relation towards the risks undertaken by the Bank is such that the expected yields significantly outweigh losses which may incur by risk taking;
  - making business decisions determined by the qualitative and quantitative analysis on the basis of applicable risk parameters;
  - utilization of a number of methods for risk identification and measurement – when managing the risks the Bank, in addition to regulatory prescribed frameworks and approaches for risk management, also applies the internal methods taking into account their applicability and justifiability in terms of investment in their development and justification of their implementation in terms of complexity and volume of business activities.
  - development of quantitative modeling mechanism which allows measurement analysis of the effects of changes in the business and market environment on Bank's risk exposure profile and further impact on profitability, liquidity and net worth of the Bank.

3.2. Risk Management Policies

- Risk Management Policy determines the following:
  - implementation of the risk management strategy by all risk types: credit, market, interest rate, liquidity and operational risk;
  - manner of organizing the risk management process of the Bank and clear division of the employees' responsibilities at all stages of that process;
  - manner of assessing the risk profile of the Bank and methodologies for risk identification, measurement or assessment;
  - methods of risk monitoring and control and establishment of the system of limits or the types of limits used by the Bank, and their structure;;
  - measures for risk mitigation and rules for applying such measures;
  - manner and methodology for implementing the internal capital adequacy assessment process of the Bank;;
  - principles for the functioning of the internal controls system;
  - framework and frequency of stress tests, as well as actions taken in cases of unfavorable stress test results.
- External reporting of the Bank is conducted pursuant to the statutory regulations and by-laws of the National Bank of Serbia.
- The internal reports are delivered on monthly, quarterly and annual basis to the Bank's competent bodies (Board of Directors, Bank's shareholders, Executive Board, Audit Committee, ALCO, Credit Committee).

3.3. Organizational Structure of the Risk Management Function

- The Risk Management Function conducts its activities through the following organizational units: Risk Management Division, Credit Risk Analysis Division and Workout Department.
- Risk Management Division consists of Credit Risk Management Department, Portfolio Monitoring Department, Market Risks Management Department and Operational Risk Management Department.
- Credit Risk Analysis Division is composed of Department of Credit Risk Analysis for Corporate Clients and Department of Credit Risk Analysis for Retail Clients, Micro Clients and Farmers.

3.3.1. Credit Risk

- Credit risk management policy represents the document which more specifically defines the **credit risk management system**, including the residual risk, the dilution risk, concentration risk, settlement/delivery risk, and the counterparty risk to which the Bank is or may be exposed in its operations, as a part of the risk management system.
- The most important processes of the risk management system are:
  - The loan approval process;
  - The process of managing the credit protection instruments;
  - The process of monitoring the loans for early detection of warning signs;
  - The process of credit risk measurement in accordance with the regulations of the National Bank of Serbia and with the Bank's internal methodology;
  - The process of portfolio and credit risk monitoring;
  - The process of non-performing loan management – work out;
  - The process of calculation of the minimum capital requirement for credit risk and internal capital adequacy assessment;
- The risk profile of the Bank is determined by an acceptable risk level for the Bank and, in accordance with the Risk Management Strategy, also depends on the Bank's portfolio structure. The purpose of credit risk management is to minimize the negative effects of the credit risk on the financial result and capital of the Bank, on the basis of balance sheet and off-balance sheet items, as well as on the basis of operations with the counterparty for the positions kept in the banking book.
- Credit risk identification starts by filing an application for loan approval.
- The loan approval process consists of gathering and verification of all the necessary documentation, information and data on the basis of which a credit analysis of individual loans is performed, as well as of the credit risk factors.
- Individual loan analysis includes the analysis of qualitative and quantitative indicators of the client's operations, identification of the risk level (establishment of classification and the client's internal rating), and the control of the extent to which the limit has been used up.
- When analyzing the individual loan, consideration is also given as to the impact on capital requirement for credit risk.
- The process of credit risk measurement is based on two approaches:
  - regulatory approach – the loan impairment process and estimation of the provisions for losses under off-balance sheet items according to the International Accounting Standard 39 and the International Accounting Standard 37, as well as classification and calculation of provisions pursuant to the regulations of the National Bank of Serbia
  - internal approach – measurement of the risk level of an individual loan on the basis of the internal rating system.
- Within the loan approval process, exposure relative to regulatory and internally defined limits is reviewed.
- Loan approval limits are defined by decision-making system, depending on the types of clients and the level of exposure: for loans within the defined limit, the decisions are made by credit committees of the branches and in certain cases the consent of the organizational unit for risk management is required. Under the competence of the central credit committees (depending on the types of clients) are the loans above the defined limits, where the decisions are rendered by obtaining a prior opinion of the organizational unit for risk management. The Executive Board and the Board of Directors pass the decisions depending on the level of exposure.
- In order to maintain the risk at acceptable level, the Bank applies the credit risk mitigation techniques at the level of individual loan by observing the exposure limits, diversification of investments, and by acquiring acceptable collaterals for the purpose of secondary collection.
- Upon approval of a loan, the loan itself and the client's operations are monitored through regular and extraordinary monitoring in order to timely identify the warning signs.
- By monitoring and controlling the portfolio as a whole and by individual segments, the Bank makes comparisons to previous periods, identifies the trends and the causes of changes in the level of credit risk. Likewise, it monitors the

asset quality indicators (NPL trends, NPL coverage by allowance for impairment...), as well as the exposure to regulatory and internally defined limits.

- For the purpose of concentration risk control the Bank has established the internal exposure limits with the same or similar risk factors (by sectors/industry, types of products, geographic areas, individual debtors or groups of related entities, credit protection instruments...). Establishment of appropriate exposure limits is the basis for diversifying the loan portfolio.
- Reporting on credit risk at the Bank's level includes the system of external and internal reporting on credit risk management. External reporting is carried out in accordance with the requirements of the National Bank of Serbia and the International Financial Reporting Standard 7 for credit risk, and the internal reporting in accordance with the Bank's internal documents.
- The report on credit risk management includes: total exposure to credit risk, exposure to credit risk according to the criteria of the National Bank of Serbia and the Internal rating system, due receivables, risky placements and loans, collaterals, provisions for estimated losses, allowance for impairment, required reserves, exposure risks, exposure and concentration limits...

3.3.2. Liquidity Risk

- The basic objective of the liquidity risk management is to maintain the level of liquid assets in order for liabilities due on balance sheet and off-balance sheet operations of the Bank to be properly and timely settled, or to minimize the negative effects on the financial result and capital of the Bank.
- The Bank has established an adequate organizational structure, business activities, the lines of decision-making and responsibilities by a clear delineation of the liquidity risk management process (implemented by the independent function responsible for risk management) and the liquidity risk management support process from the process of liquidity risk taking.
- Liquidity Management Committee and the Asset/Liability Management Committee have a significant and primary role in risk liquidity management process, within the scope of their competence, in ordinary and extraordinary business conditions. Also, the other Bank's Committees have a role in liquidity risk management process and their decisions may have an impact on exposure to the stated risk.
- Basic principles of liquidity risk management:
  - the readiness to respond to matured obligations, through maintenance of minimum level of liquid assets;
  - maintenance of the match between inflow and outflow of assets by limiting the currency and maturity mismatch of receivables and liabilities;
  - establishment of planned activities in the case of occurrence of unforeseen events (liquidity crisis).
- In 2013 the Group implemented an application for managing assets and liabilities, thereby significantly improving the existing methodologies, and introduced new liquidity risk management models, with the aim of measuring this risk more accurately.
- Identification of liquidity risk implies the analysis of all the indicators that lead to occurrence and increase of liquidity risk, monitoring the level of available liquid assets (liquidity reserves) and reviewing the types and the amount of funding sources, through the assessment of stability of deposits.
- The process of liquidity risk measurement includes the assessment of the current and the future exposure to liquidity risk and the same is conducted by applying the regulatory and internally defined methods and models:
  - Regulatory approach – application of liquidity ratio and more specific liquidity ratio;
  - Internal approach – application of static and dynamic GAP and ratio analysis, stress testing (sensitivity analysis and scenario analyses) and simulations.
- In order to manage the liquidity risk, the limit monitoring system has been established. Regulatory defined liquidity limits which the Bank observes relate to maintenance of minimum liquidity ratios over the period of 1 day, 3 days and the average for a month. When defining the exposure limit to liquidity risk, a number of aspects of liquidity risk are considered, taking into account the limitation of negative effect on the financial result and capital of the Bank, and limitation of currency and maturity mismatch. The Bank has defined the internal standards for liquidity risk management, which refer to defined internal limit of liquidity ratio, limits of liquidity gaps by maturity and currencies, structural liquidity limits, identification and quantification of early elements of liquidity crisis.
- Monitoring and control of liquidity risk include the monitoring of business activity compliance with the defined limit system, in order to maintain the liquidity risk at the level accepted by the defined risk profile of the Bank, as well as to follow up and monitor the implementation of measures. The liquidity risk monitoring and control have been established and integrated in all business activities of the Bank and at all levels of liquidity risk management, as has also been established an independent control of the assessment of adequacy, reliability and efficiency of the liquidity risk management system.

- In order to maintain the liquidity risk at the level accepted by the defined risk profile, the Bank applies the techniques and measures of liquidity risk mitigation in the conditions when the exposure to liquidity risk tends to the upper limit of the defined risk profile of the Bank. The techniques applied by the Bank relate to maintenance of sufficient level of liquidity reserves, or marketable liquid assets in major currencies, diversification of funding sources by maturity and currency, reducing the concentration of funding sources by sector structure, for the purpose of establishing a stable base of sources of funds.
- The Group has set up a liquidity risk reporting system which includes an assessment and analysis of exposure to liquidity risk, compliance with external and internal limits, results of stress test analysis and proposed measures, as well as results of the completed testing of the Liquidity Risk Management Plan for contingency situations.

3.3.3. Interest Rate Risk in the Banking Book

- The objective of interest rate risk management is to preserve the economic value of the Bank's capital, with simultaneous minimization of negative effects of changes in interest rates on the financial result, for the positions that are kept in the Banking Book.
- The Bank has established an appropriate organizational structure, business activities, decision-making and responsibilities lines, by clear delineation of risk assumption process from risk management process.
- Asset/Liability Management Committee has a significant and primary role in interest rate risk management process, within its competence. Likewise, in interest rate risk management process other Bank's Committees have their role and their decisions may have an impact on exposure to the above stated risk.
- Basic principles of Bank's interest rate risk management are:
    - maintenance of interest rate risk level which allows for minimizing the negative effect of changes in interest rates on the market and also the maintenance of minimum required interest rate margin;
    - limitation as to maturity and currency mismatch for the purpose of preserving the economic value of capital, or minimizing the negative impact of interest rate changes on exposure to interest rate risk;
    - optimization of the cost of funds with adaptation and caution during the formation of competitive interest rates on Bank's products.
- Identification of the interest rate risk implies the analysis of all the indicators and factors which lead to occurrence and increase of exposure to interest rate risk, along with the type of interest rate risk to which the Bank is exposed.
- Measurement of interest risk constitutes a quantitative and qualitative assessment of exposure to interest risk and is conducted using the internal models of static and dynamic GAP and ratio analysis, economic value of capital, net present value and stress testing. Mitigation of interest rate risk is conducted by the Bank continuously by maintaining the risk at acceptable level for risk profile and by establishing and implementing the adequate measures and techniques. In interest rate risk management process the Bank applies the internal limits system. When defining the exposure limit to interest rate risk the Bank takes into account multiple aspects of interest rate risk, thus limiting the negative effect on the financial result and the economic value of the capital. The Bank has defined the limits of interest-bearing positions, gap limits by currencies up to 1 year, which leads to limitation of the negative impact on the financial result, and limit of change in the economic value of the capital by which the negative impact on the capital is limited.
- Interest rate risk monitoring and control include the compliance of business activities with the defined system of limits, for the purpose of maintaining the interest rate risk at the level accepted by the defined risk profile of the Bank, as well as the follow-up and monitoring of implementation of the measures. The system of internal interest rate risk control is integrated in all business operations of the Bank, as is also the independent control of the assessment of adequacy, reliability and efficiency of the interest rate risk management system.
- The Bank has established the process for monitoring and reporting on the effects of implementation of applied risk mitigation measures and techniques, that are aimed at maintaining the match of interest rate-sensitive positions, diversification of funding sources by type of interest rate, maturity, and by repricing and currency and at optimizing the cost of funds.
- The system of reporting on exposure to interest rate risk includes the assessment and analysis of the exposure to interest rate risk, compliance with the external and internal limits, results of stress test analysis and proposals of measures.

3.3.4. Market Risk

- In its everyday operations the Bank is continually exposed to foreign exchange risk and price risk.

Foreign Exchange Risk Management

- The objective of foreign exchange risk management is to ensure safe operation of the Bank through minimization of the negative effects of changes in the exchange rate of the domestic currency on the financial result and capital of the Bank, for the positions that are kept in the banking book and the trading book.
- The Bank has established an appropriate organizational structure, business activities, decision-making and responsibilities lines, by clear delineation of foreign exchange risk assumption process from the process of its management and the support process.
- ALCO and other Bank's Committees have a significant role in foreign exchange risk management process and their decisions may have an impact on the exposure to the above mentioned risk.
- Identification of the foreign exchange risk refers primarily to consideration of transaction and balance sheet exposure, and also to exposure arising from introduction of new products and activities and to analysis of internal and external factors. Identification of exposure to foreign exchange risk is conducted at the level of exposure to a single currency and also at the level of entire foreign exchange portfolio for all the currencies.
- Measurement of foreign exchange risk includes the assessment of the current and the future exposure to foreign exchange risk and is performed by applying the regulatory and internally defined methods and models:
  - Regulatory approach – application of foreign exchange risk ratios;
  - Internal approach – stress testing (sensitivity and scenario analysis) and simulations, value at risk and back testing.
- The Bank conducts a continuous mitigation of foreign exchange risk by maintaining the risk at acceptable level for risk profile, and also by establishing and applying the appropriate measures and techniques, and by follow up and monitoring of implementation of the measures. The Bank implements the system of external and internal limits, established on the basis of foreign exchange risk ratio. When defining the exposure limit to foreign exchange risk multiple aspects of foreign exchange risk are taken into account, thus limiting the negative effect on the financial result and capital of the Bank. The Bank has defined the internal limits of foreign exchange risk ratio by individual currencies and aggregated at more rigorous level than the regulatory limits, as well as limits on transactions that affect the financial result.
- As a part of foreign exchange risk management the Bank uses standard and derivative instruments and measures in the segment of assets and funding sources in order to minimize and mitigate the exposure to the mentioned risk. The Bank has established a process of monitoring and reporting on the effects of implementation of the measures and techniques applied to mitigate the foreign exchange risk risk, through regular reporting to the competent committees and bodies, and by clear division of responsibilities, defining rules on the frequency and reporting on the implementation of measures adopted to reduce foreign exchange risk risk.
- The Bank has established a reporting system which includes an assessment and analysis of the exposure to foreign exchange risk, compliance with external and internal limits, results of the stress test analysis, and proposals of measures.

Price Risk Management

- The Bank has established an appropriate organizational structure, business activities, decision-making and responsibilities lines, by clear delineation of risk assumption process from the process of its management and support, and guided by the principles of the risk management system of the trading book.
- The Executive Board has a significant role in the risk management of the trading book. Other Bank's Committees and Boards also have a role in price risk management process and their decisions may affect the exposure to the stated risk.
- Basic principles for Bank's price risk management are:
  - maintenance of the risk level in compliance with the internally defined limits;
  - monitoring the changes on the market that may lead to increased exposure to the trading book risks;
  - determination of the measures for mitigating the exposure to risks in the circumstances when the Bank tends to the upper limit of the accepted risk profile of the risk exposure.
- Identification of the risk of trading book operations includes the analysis of all the indicators and factors which lead to occurrence and increase of the risk profile of the Bank.
- Measurement and assessment of the risk of trading book operations includes the following implementation:
  - standardized (regulatory prescribed) approach
  - internal model by using Value at Risk methodology.
- Mitigation of price risk is conducted continuously by maintaining the risk at acceptable level for risk profile and by

establishing and implementing the adequate measures and techniques. Defining and applying the appropriate safeguards and preventive measures, defining the exposure limit and defining and implementing the measures for price risk mitigation characterize the phase of mitigating the price risk. The Bank has in place the established system of internal limits adopted by the competent Committees and Boards of the Bank, as follows: exposure limits for all trading book positions, limits on investment by products and types of transactions, limits by type of issuer of the securities and the participation of the issuer in total portfolio...

- The system of price risk internal control is integrated in all business activities of the Bank, as is also the independent control of the assessment of adequacy, reliability and efficiency of the price risk management system.
- Pursuant to the established system of reporting on Bank's price risk, the Bank performs external and internal reporting.

3.3.1. Operational Risks

- In order to minimize occurrence of an operational risk event, the Bank establishes an appropriate framework which includes: the process of identifying the operational risk event, the process of classifying the operational risk events according to risk level, the analysis of the operational risk event, the process of monitoring the operational risk event, the process of monitoring the measures for operational risk mitigation, and the system of early detection of operational risk event.
- When assuming the operational risk the Bank is guided by the following principles:
  - managing business operations in accordance with the good operational risk management practices;
  - provision of adequate controls for operational risk management;
  - timely identification and continuous monitoring of the operational risk event, minimization of operational risk occurrence by implementation of the measures;
  - analysis of key risk indicators that lead to occurrence of operational risk event,
  - measurement of operational risk by applying the regulatory approach (operational risk ratio) internal approach (stress testing, value at risk and back testing)
  - measurement of the current exposure to operational risk and the assessment of the exposure based on the introduction of new products and activities on the implementation of measures to minimize the operational risk events.
- The Bank continuously mitigates the operational risk, which involves maintenance of the risk at the acceptable level through determination of measures to minimize the operational risk, which include the following:
  - definition of the exposure limit;
  - definition and application of the operational risk mitigation measures;
  - system of physical controls;
  - Business Continuity Plan and
  - Disaster Recovery Plan.
- Operational risk monitoring and control involve the monitoring of the compliance of business operations with the defined system of limits for the purpose of maintaining the operational risk at the level accepted by the defined risk profile of the Bank, as well as the follow-up and monitoring of implementation of the measures. Operational risk monitoring and control have been established and integrated in all business activities of the Bank and at all levels of operational risk management, as has also been established the independent control for assessing the adequacy, reliability and efficiency of the operational risk management system.
- The Bank has established the process of monitoring and reporting on the effects of implementation of the applied measures and techniques of operational risk mitigation through regular reporting to the competent committees and bodies, and a clear division of responsibilities, definition of the rules with regard to frequency of reporting on implementation of the measures adopted to minimize the operational risk. The reporting system includes timely reporting on the operational risk events by event type and business lines, the causes and sources of the event occurrence, significance of the event, exposure trend, measures intended to be taken or already taken for the purpose of mitigating and limiting the consequences of the events, and activities entrusted by the Bank to third parties.
- Bank calculates the capital requirement for operational risk in accordance with the regulations of the National Bank of Serbia, using standardized approach.
- Capital requirement for operational risk for the year 2014 amounts to (in RSD 000): 2.291.166

3.3.2. Country Risk

- The objective of country risk management is to ensure minimum exposure through adequate country risk measurement by applying the adopted methodology and defined limits of exposure to countries or a group of countries on the basis of the country rating.
- Identification of country risk includes the analysis of all the indicators that give rise to and increase the country risk,

carried out at the level of the individual placement and the overall portfolio.

- Prerequisite for achieving the defined objectives of the country risk management is the existence of adequate and updated database containing the recorded information provided by the business sectors on client's domicile country and his place of residence.
- Measurement of country risk is based on external credit ratings of client's domicile country, on the basis of which the loans are classified/grouped to certain level of risk.
- The Bank defines the procedure for country risk monitoring and control as monitoring of the limit and of the measures adopted to reduce the country risk, as well as the control process.
- The Bank has in place the established system for country risk reporting by which the Bank's Management, competent committees and boards and organizational units are timely informed.

3.3.3. Investment Risk

- The Bank has established the internal and external system for reporting on investment risk, thus ensuring that the investment outside the financial sector does not exceed 10% of the Bank's capital, and that the Bank's investments in financial sector and in fixed assets do not exceed 60% of the Bank's capital.

4. BANK'S CAPITAL

- The Bank's Capital Strategy and Plan substantiate and specify the implementation of the strategic objectives and guidelines for capital planning, and set the time horizon for their accomplishment in view of the impact of macro-economic indicators and changes in economic cycle trends on strategic plans, the manner in which the Bank will respond to capital requirements in the future, and relevant limitations on the capital, as well as the general plan for acting in unforeseen circumstances.
- Pursuant to the defined targeted values, the Bank undertakes measures for their realization and maintenance.

Capital structure RSD 000

Name	31.12.2014.	31.12.2013.
CORE CAPITAL	**33.286.532**	**45.134.001**
Nominal value of paid up shares, except for cumulative preferred shares,	17.191.466	17.191.466
Paid up ordinary shares	8.709.310	8.709.310
Paid up non-cumulative preferred shares	373.510	373.510
Paid up convertible preferred bank shares	8.108.646	8.108.646
Issue premium	22.843.084	22.843.084
Reserves from the profit	20.635.440	16.635.440
Profit of current year	–	–
Deductible items from core capital	27.383.458	11.535.990
Intangible investments	405.774	537.445
Amount of bank shares taken in pledge, except for cumulative preferred shares	357.233	290.274
Non-realized losses arising from securities available/held for sale	270.737	187.011
Required reserves from profit for estimated losses under balance sheet assets and off-balance sheet items of the bank	26.349.714	10.521.260
SUPPLEMENTARY CAPITAL	**4.593.961**	**4.961.842**
Part of revaluation reserves of the bank	2.174.795	1.522.579
Subordinated liabilities	2.419.166	3.439.263
DEDUCTIONS FROM CAPITAL	**5.555.355**	**16.076.615**
Direct and indirect investment in banks and other entities in the financial sector in an amount higher than 10% of the capital of such banks or other entities	5.555.355	5.555.355
Required reserve from profit for estimated losses under balance sheet assets and off-balance sheet items of the bank	–	10.521.260
TOTAL CORE CAPITAL	**30.508.855**	**34.019.228**
TOTAL SUPPLEMENTARY CAPITAL	**1.816.284**	**–**
TOTAL REGULATORY CAPITAL	**32.325.138**	**34.019.228**

- The Bank calculates the capital adequacy ratio and capital requirements in accordance with the regulations of the National Bank of Serbia by using the standardized approach for credit risks, market risks and operational risks.
- Regulatory prescribed minimum capital adequacy ratio is 12%.

Overview of total capital requirements according to standardized approach RSD 000

Capital Requirements	31.12.2014.	31.12.2013.
CAPITAL	**32.325.138**	**34.019.228**
Total core capital	30.508.855	34.019.228
Total supplementary capital	1.816.284	–
Credit risk, counterparty risk and settlement/ delivery risk based on free deliveries	**19.550.391**	**19.381.177**
Exposures to states and central banks	–	–
Exposures to territorial autonomies and local government units	116.949	74.147
Exposures to public administrative bodies	25	–
Exposures to international development banks	34	2.168
Exposures to banks	976.189	924.298
Exposures to companies	10.643.288	10.504.556
Exposures to private individuals	3.382.567	3.037.644
Exposures secured by mortgages on real property	2.789.559	2.525.787
Due outstanding receivables	158.936	659.480
Other exposures	1.482.844	1.653.095
Market Risks	**112.670**	**86.496**
Capital requirement for price risk based on debt securities	–	–
Capital requirement for price risk based on equity securities	–	–
Capital requirement for foreign exchange risk	112.670	86.496
Capital requirement for commodity risk	–	–
Operational Risks	**2.291.166**	**2.000.237**
Exposure to operational risk	2.291.166	2.000.237
Total capital requirements	**21.954.227**	**21.467.910**
Capital adequacy ratio (minimum 12%)	**17,67%**	**19,02%**

- The Bank includes the trading book positions in calculation of capital requirements for credit risk, taking into consideration that value and share of trading book in total operations do not obligate the Bank to allocate special capital requirements for market risks
- Capital requirement for FX risk is calculated, as the FX risk ratio exceeds 2%.

Structure of calculation of capital requirement for operational risk
RSD 000

Business line	Exposure indicator			Capital requirement rate	Capital requirement
	2011	2012	2013		
1. Corporate financing	5.810	7.532	6.144	18%	2.291.166
2.Trade and sales	(1.428.986)	(5.389.994)	1.020.003	18%	
3. Retail broker-dealer operations	5.047	3.655	5.032	12%	
4. Corporate banking operations	8.759.726	17.004.123	9.662.860	15%	
5. Retail banking operations	5.408.320	2.322.993	5.843.080	12%	
6.Payment transactions	1.528.060	1.703.366	1.782.950	18%	
7. Agency services	24.426	30.568	29.231	15%	
8. Property management	161.800	213.069	75.166	12%	

4.1. Internal Capital Adequacy Assessment Process – ICAAP

- The Bank has set up an internal capital adequacy assessment process (hereinafter ICAAP) in accordance with its risk profile. The aim of ICAAP is to strengthen the relationship between risk management and the Bank's capital i.e. to ensure that the Bank has sufficient capital at its disposal to support current and future activities and to cover all materially sitgnificant risks the Bank is exposed to in its operation.
- ICAAP is included in the risk management system and forms an integral part of the decision-making process in the Bank. Also, it is regularly revised and adjusted, especially when the Bank is exposed to new risks or significant changes.
- The Bank has established the Capital Management Strategy and the Capital Management Plan. Capital Management Plan includes:

- Strategic goals and time periods for their implementation, taking into account the impact of macroeconomic environment and economic cycle phases;
- Manner of organization of available internal capital management process;
- Procedures for planning the adequate level of available internal capital;
- Manner of accomplishment and maintenance of adequate internal capital level;
- Business plan in the case of unforeseen events which can influence the amount of available internal capital.

- ICAAP is a stable risk management process which adequately identifies, measures, aggregates and monitrors risks by including all key elements of capital requirements assessment and capital management and planning.
- ICAAP is a documented process which is carried out on a continued basis and in accordance with the Risk Management Strategy and individual Risk Management Policies, as well as with the Capital Management Strategy and Capital Management Plan. Basic conditions met by ICAAP implemented in the Bank:
  - It is based on the process of risk identification and measurement, or risk assessment;
  - It provides a comprehensive risk assessment, as well as monitoring of the significant risks the Bank is or may be exposed to in its operations;
  - Ensures adequate internal capital in accordance with the Bank's risk profile;
  - It is incorporated in the Bank's management system and in decision-making process in the Bank;
  - It is subject to regular analysis, monitoring and verification.
- ICAAP objective is a clear establishment of the capital level that is sufficient to cover all risks the Bank is exposed to. The main objective of the internal capital adequacy assessment process is to enhance the relation among the Bank's risk profile, risk management system and capital availability. The Bank is expected to implement the appropriate assessment process which includes all the key elements of capital planning and management, as well as to provide the sufficient level of capital in relation to the identified risks.
- By determining the potential for risk coverage, the Bank indirectly sets the maximum level of the risk it is ready to accept. Apart from assessment of internal capital requirements, internal capital is also assessed through ICAAP. Planning of internal capital also ensures maintaining the level of capital that can support the growth of loans, future funding sources, dividend policy...
- The Bank continuously assesses the risk profile and regularly revises the internal capital adequacy assessment process, developing at the same time the methodologies for assessment of other risk types in order for the comprehensive risk management at the Bank's level to be as efficient as possible.
- The basic principles of the internal capital adequacy assessment process of the Bank are:
  - establishment of the internal capital adequacy assessment process of the Bank in accordance with the risk management objectives and principles for risk taking and management;
  - identification, measurement (assessment), mitigation and monitoring of all risks as a basis for capital adequacy assessment;
  - establishment of the internal capital adequacy assessment process of the Bank in accordance with the volume, type and complexity of the Bank's operations;
  - provision of the internal capital in accordance with the risk profile of the Bank.

ICAAP Phases:

- Establishment of materially significant risks − Quantitative and qualitative criteria are established based on the methodology, serving to determine the materially significant risks that will be included in the internal capital adequacy assessment process in accordance with the type, volume and complexity of the Bank's business operations, as well as the specificities of the markets on which it operates. In assessing the risk materiality, the Bank considers all risks to which it is exposed or which it assumes. All assumed risks can be divided into significant, which require allocation of a part of the capital, and those which do not require such allocation since they have been assessed as non-material or the Bank manages them through the established risk management system.
- Calculation of the amount of the internal capital requirements for individual risks − the Bank uses the methods prescribed for calculation of minimum capital requirements, as well as the internal approaches to measurement. The Bank performs the stress testing for all materially significant risks and internal capital, which include the risk factors specific for the environment in which the Bank operates. The stress test results are taken into account at assessing and maintaining the internal capital at a certain level. For the purpose of inclusion of materially significant risks in ICAAP, the Bank applies the following methodologies for the following:
  - **Credit risk** – standardized approach with stress testing by applying econometric models with a time horizon of one year;
  - **Operational risk** – Monte Carlo VaR model with a confidence interval of 99,9%, with application of stress testing.
  - **Market risk (Foreign exchange risk)** –VaR methodology with application of stress testing as well.
  - **Interest rate risk** – methodology on the basis of net market value and the change in factors;

- **Liquidity risk** –testing “hypothetical” level of liquidity crisis and the calculation of the amount of missing funds;
- **Residual risk** – stress testing of deteriorating efficiency of applied mitigation techniques;
- **Credit FX risk** – stress testing the effects on increase of exposure to credit risk due to increase in exchange rate;
- **Strategic risk** – stress testing the negative departures from the planned values of net interest income;
- **Materially insignificant risks** are included in ICAAP through the system of policies and procedures, system of limits, decision-making system...

- Calculation of total internal capital includes results of stress testing. Also, for regulatory and internal capital planning the time horizon is three years.
- Comparison of the capital amount calculated in accordance with regulatory requirements and the amount of the available internal capital, as well as the minimum capital requirements and the internal capital requirements.

5. EXPOSURE TO RISKS

5.1. Credit Risk and Dilution Risk

In the credit risk analysis and assessment the Bank uses two parallel approaches: internal and regulatory.

- Internal rating system is not only the instrument for shaping the individual decisions and the assessment of risk level of an individual loan, but instead it represents the basis for portfolio analysis, support in loan approval process and in process of loan impairment and also in assessment of provisions for losses under off-balance sheet positions/items in order to rank the risk exposure level of a loan and to express the real value of claims. Internal rating system is subject to regular audit and improvement.
- In credit risk analysis, in addition to Internal rating system, the Bank also uses the principles prescribed by the regulations of the National Bank of Serbia, which require the classification of each loan based on stipulated criteria and calculation of reserves for credit risk assessment. Application of these criteria allows the Bank to cover the unexpected losses that may incur due to inability of the client to settle his liabilities at maturity in line with contractually defined terms. Therefore, the Bank classifies the receivables and calculates the required level of credit loss reserves, which is a form of protection from possible negative consequences if invested funds are not repaid when due and in full amount.
- Positive difference between calculated credit loss reserves (based on regulatory approach), on the one hand, and the allowance for impairment and provisions for potential losses (based on internal approach), on the other hand, provides the required credit loss reserves, which represent a deductible item from capital.

The matured unsettled receivables the Bank defines as all receivables not recovered at maturity (principal, interest and fees, as well as the interventions under guarantees, guarantees of a bill and other forms of sureties, illicit overdraft in client accounts, and other due obligations of the clients).

Exposures with performed allowances for impairment are exposures where assessment of their collectability is made, or where reduction is made for the amount of the expected loss.

- The Bank has the clearly defined criteria for credit and receivable assessment and recognition, and the criteria for assessing and recognizing the provisions for contingent liabilities, in accordance with the Decision of the National Bank of Serbia on Classification of Balance Sheet Assets and Off-Balance Sheet Items and also by observing the requirements of the International Accounting Standards (IAS) 39 and 37.
- Loans are impaired and provisions made only in the case of justified or objective proof of the impairment as a consequence of the events occurring after the initial recognition of the receivable, and which have an adverse impact on regular settlement of debtor’s liabilities to the Bank.
- The main elements in assessing the impairment of a loan are: overdue payment of principal or interest, difficulties in cash flows of loan beneficiaries, fall in the credit rating or changes of the original contractual terms and conditions, etc.
- Loan is impaired based on the assessment of expected future cash flows from clients’ operation, and by realization of the collateral if assessed that there is a realistic possibility for the loan to be recovered from such funds.

Calculation of Allowances for impairment for Balance Sheet Assets

- The Bank assesses the impairment of receivables as individual and group assessment. All clients are grouped pursuant to the internally prescribed methodology based on the Bank’s internal rating system.
- The impairment assessment process is performed individually, when there is objective evidence of impairment of loans, for each materially significant loan, and at the group level for materially significant loans for which there is no objective evidence for individual impairment and less materially significant loans. The impairment amount is assessed individually as a difference between the book value and the present value of expected future cash flows, determined by discounting

the expected inflow under the loan, applying the last agreed effective interest rate of the particular loan. In case of interventions under the guarantees and other forms of sureties, the present value is determined by discounting the expected inflow through applying the average annual default interest rate.

- Impairment on a group basis is assessed for each group separately, taking into account their similar characteristics in terms of credit risk, equaling the percentage of migrations of the appropriate group into the default group (defaulting over 90 days).
- Loan impairment that reduces the value of a loan is recorded in the provision account in the balance sheet, and recognized as an expense in the income statement.

Calculation of Provisions for Losses under Off-Balance Sheet Items

- Provisions of the Bank are calculated on individual and group basis. Contingent liabilities with a high degree of probability to entail an outflow of assets are assessed individually, while the rest of contingent liabilities are assessed on group level.
- Assessment of the provisions on the group level is performed based on the migrations of the risk categories by taking into consideration all elements of the internal rating system, in the manner identical to the one applied in the procedure pertaining to balance sheet positions.
- Provisions are recorded within liabilities in the balance sheet and are recognized as an expense in the income statement of the period in which the probability originated.

Overview of Exposures to Credit Risk per Assets Class RSD 000

Exposure to Credit Risk	31.12.2014		31.12.2013	
	Exposure	Average value	Exposure	Average value
States and central banks	138.215.755	112.007.636	112.394.186	94.959.953
Territorial autonomies and local government units	2.552.943	1.966.506	1.723.791	1.665.488
Public administrative bodies	1.933.047	644.349	–	–
International development banks	799	57.813	96.763	78.983
Banks	31.187.283	26.459.626	27.396.004	21.352.200
Companies	101.809.998	105.695.998	102.679.102	104.811.445
Private individuals	38.524.507	35.265.676	34.735.930	33.188.500
Exposures secured by mortgages on real property	37.502.325	34.294.265	34.275.640	30.236.914
Due outstanding receivables	18.407.396	16.174.018	17.876.024	11.588.439
Other exposures	44.230.023	42.171.337	42.511.690	36.164.963
Total	**414.364.077**	**374.737.223**	**373.689.130**	**334.046.884**

**Note: gross exposure reduced by allowances and provisions for estimated losses and adjusted for conversion factors for off-balance sheet items.*

Sector Exposure Distribution per Classes of Assets RSD 000

Exposure to Credit Risk	31.12.2014.	31.12.2013.
	Value of exposure	Value of exposure
States and central banks	**145.845.110**	**120.446.955**
Finance and insurance sector	43.812.507	54.160.779
Public sector	101.705.828	66.281.554
Foreign entities sector	72	4.622
Other customers sector	326.704	–
Territorial autonomies and local government units	**2.524.499**	**1.716.016**
Public sector	1.949.144	1.235.791
Foreign entities sector	575.355	480.225
Exposures to public administrative bodies	**211**	–
Public sector	211	–
International development banks	**799**	**96.763**
Finance and insurance sector	799	96.763
Banks	**31.100.571**	**27.366.377**
Finance and insurance sector	12.356.731	6.266.857
Foreign entities sector	18.743.839	21.099.519
Banks-other	2	1
Companies	**88.694.064**	**87.537.969**
Finance and insurance sector	1.661.079	6.268.580
Public companies sector	12.289.806	3.367.520
Company sector	72.970.713	76.667.946
Entrepreneurs sector	556.639	592.841
Public sector	280.515	181
Foreign entities sector	143.855	28.789
Other clients' sector	156.442	42.133
Household corporate firms with employees and farms	635.015	569.978
Private individuals	**37.584.076**	**33.751.599**
Finance and insurance sector	24.543	666
Public companies sector	27.655	16.688
Company sector	5.852.753	5.059.815
Entrepreneurs sector	1.827.386	1.314.378
Public sector	13.520	8.581
Retail sector	25.610.621	23.687.998
Foreign entities sector	11.054	13.204
Household corporate firms with employees and farms	4.212.979	3.583.751
Other clients' sector	3.566	66.518
Exposures secured by mortgages on real property	**37.047.838**	**33.825.706**
Company sector	3.019.855	3.333.836
Entrepreneurs sector	197.761	213.553
Retail sector	33.715.416	29.896.506
Foreign entities sector	5.101	5.165
Household corporate firms with employees and farms	109.705	339.816
Other clients' sector	–	36.829
Due outstanding receivables	**1.281.437**	**5.366.908**
Finance and insurance sector	–	508
Public companies sector	1.301	116.596
Company sector	1.033.147	4.966.289
Entrepreneurs sector	4.260	17.361
Public sector	–	–
Retail sector	200.313	216.891
Foreign entities sector	–	28
Household corporate firms with employees and farms	29.057	48.358
Other clients' sector	13.358	877
Other exposures	**42.518.528**	**41.162.833**
Finance and insurance sector	29.471	2.380.561
Public companies sector	–	2
Company sector	386.977	335.080
Entrepreneurs sector	4.417	1.869
Public sector	7.164	3.697
Foreign entities sector	123.882	259.135
Other clients' sector	21.077	45.335
Other	41.945.540	38.137.155
Total	**386.597.135**	**351.271.126**

**Note: gross exposure reduced by allowances, provisions for estimated losses and required reserves and adjusted for conversion factors for off-balance sheet items upon application of mitigation techniques*

Gross exposure where allowances and provisioning under off-balance sheet items was made RSD 000

Exposure to credit risk	31.12.2014.		31.12.2013.	
	Gross exposure where allowance or provisioning was made	Allowance and provisions	Gross exposure where allowance or provisioning was made	Allowance and provisions
Territorial autonomies and local government units	**1.651.718**	**17**	**391.455**	**4**
Public sector	1.651.718	17	391.455	4
Banks	**369.645**	**267.196**	**223.278**	**223.215**
Finance and insurance sector	103.495	1.046	699	637
Foreign entities sector	263.126	263.126	222.579	222.578
Other customers sector	3.024	3.023	–	–
Companies	**94.303.584**	**2.124.029**	**80.302.564**	**3.208.581**
Finance and insurance sector	3	–	3.886.852	2.805
Public companies sector	12.969.301	133.342	360.124	47
Company sector	78.982.197	1.520.985	74.521.746	2.991.411
Entrepreneurs sector	575.796	4.531	612.638	3.381
Public sector	374.494	2.375	6	–
Foreign entities sector	355.876	209.086	237.874	209.085
Other customers sector	412.474	253.672	107.731	1.464
Household corporate firms with employees and farms	633.443	39	575.593	387
Private individuals	**35.454.290**	**677.296**	**31.467.971**	**465.180**
Finance and insurance sector	15.038	681	253	9
Public companies sector	29.600	1.184	–	–
Company sector	6.058.518	217.584	5.212.513	191.086
Entrepreneurs sector	1.867.174	48.420	1.317.116	28.140
Public sector	10.082	368	8.166	404
Retail sector	23.181.160	324.966	21.266.227	201.857
Foreign entities sector	4.030	63	5.765	274
Household corporate firms with employees and farms	4.274.767	74.638	3.585.675	38.778
Other customers sector	13.921	9.392	72.257	4.633
Exposures secured by mortgages on real property	**38.454.769**	**105.776**	**35.168.816**	**58.098**
Company sector	4.023.791	66.056	4.364.370	22.207
Entrepreneurs sector	198.133	3.236	216.304	1.140
Retail sector	34.112.372	31.293	30.199.110	32.829
Foreign entities sector	5.101	–	5.165	–
Household corporate firms with employees and farms	115.373	5.191	346.886	1.922
Other customers sector	–	–	36.981	1
Due outstanding receivables	**39.971.438**	**21.626.638**	**34.241.240**	**16.870.592**
Finance and insurance sector	105.463	105.463	142.972	142.972
Public companies sector	4.187.985	2.150.011	166.580	2.073
Company sector	17.652.489	7.174.464	26.837.348	11.099.545
Entrepreneurs sector	287.642	232.631	298.459	236.439
Public sector	30.000	30.000	30.000	30.000
Retail sector	2.854.090	2.018.249	2.216.528	1.638.304
Foreign entities sector	86.201	86.201	262.216	161.985
Household corporate firms with employees and farms	417.024	323.303	409.811	293.162
Other customers sector	14.350.544	9.506.314	3.877.326	3.266.112
Other exposures	**17.514.411**	**4.878.342**	**15.249.777**	**4.435.095**
Finance and insurance sector	2.235	–	5	–
Public companies sector	–	–	3	1
Company sector	428.843	5.202	450.881	7.772
Entrepreneurs sector	4.266	96	1.648	41
Public sector	3.892	47	762	1
Foreign entities sector	125.416	1	–	–
Other customers sector	13.703	676	48.635	1.366
Other	16.936.055	4.872.320	14.747.843	4.425.915
Total	**227.719.854**	**29.679.294**	**197.045.100**	**25.260.765**

**Note: presented is the gross exposure of items where allowance and provisions for off-balance sheet items was made*

Geographic exposure according to materially significant areas, per classes of assets RSD 000

Exposure to credit risk	31.12.2014.	31.12.2013.
	Exposure value	Exposure value
States and central banks	**145.845.110**	**120.446.955**
Republic of Serbia	145.518.334	120.446.954
Other	326.776	1
Territorial autonomies and local government units	**2.524.499**	**1.716.016**
Republic of Serbia	2.524.499	1.716.016
Exposures to public administrative bodies	**211**	–
Public sector r	211	–
International development banks	**799**	**96.763**
Other	799	96.763
Banks	**31.100.572**	**27.366.377**
Republic of Serbia	12.356.733	6.266.865
Germany	5.356.636	7.951.620
Switzerland	4.877.960	3.944.954
Austria	4.617.985	2.979.323
France	1.320.026	2.893.797
Great Britain	1.080.206	1.334.994
Bosnia and Herzegovina	630.607	465.748
United States of America	271.852	437.848
Montenegro	7.503	436.245
Other	581.065	654.981
Companies	**88.694.064**	**87.537.969**
Republic of Serbia	88.550.209	87.509.181
Other	143.855	28.789
Private individuals	**37.584.076**	**33.751.599**
Republic of Serbia	37.573.022	33.739.028
Other	11.054	12.571
Exposures secured by mortgages on real property	**37.047.838**	**33.825.706**
Republic of Serbia	37.045.091	33.822.829
Other	2.748	2.876
Due outstanding receivables	**1.281.437**	**5.366.908**
Republic of Serbia	1.281.437	5.366.907
Other	–	1
Other exposures	**42.518.528**	**41.162.832**
Republic of Serbia	42.394.313	40.903.697
Other	124.215	259.135
Total	**386.597.135**	**351.271.126**

**Note: gross exposure reduced by allowance, provisions for estimated losses and required reserves and adjusted for conversion factors for off-balance sheet items upon application of mitigation techniques*

Maturity distribution of all exposures per classes of assets RSD 000

Exposure to credit risk	31.12.2014.	31.12.2013.
	Exposure value	Exposure value
States and central banks	**145.845.110**	**120.446.955**
Up to three months	53.935.563	60.408.940
From three months to 6 months	10.491.949	13.031.305
From 6 months to 1 year	18.255.929	6.752.318
Over 1 year	63.161.670	40.254.392
Territorial autonomies and local government units	**2.524.499**	**1.716.016**
Up to three months	579.725	480.226
From three months to 6 months	–	1.408
From 6 months to 1 year	–	13.341
Over 1 year	1.944.773	1.221.041
Exposures to public administrative bodies	**211**	**–**
Up to three months	–	–
From three months to 6 months	–	–
From 6 months to 1 year	–	–
Over 1 year	211	–
International development banks	**799**	**96.763**
Up to three months	799	61.158
From three months to 6 months	–	–
From 6 months to 1 year	–	–
Over 1 year	–	35.605
Banks	**31.100.572**	**27.366.377**
Up to three months	26.566.022	22.267.428
From three months to 6 months	1.955.947	133.719
From 6 months to 1 year	29.633	1.513.087
Over 1 year	2.548.970	3.452.143
Companies	**88.694.064**	**87.537.969**
Up to three months	7.816.261	7.676.972
From three months to 6 months	7.210.894	9.770.237
From 6 months to 1 year	13.716.938	11.835.960
Over 1 year	59.949.971	58.254.801
Private individuals	**37.584.076**	**33.751.599**
Up to three months	5.420.326	5.399.971
From three months to 6 months	1.918.658	2.157.308
From 6 months to 1 year	5.387.580	4.583.614
Over 1 year	24.857.511	21.610.706
Exposures secured by mortgages on real property	**37.047.838**	**33.825.706**
Up to three months	164.921	119.203
From three months to 6 months	216.013	217.004
From 6 months to 1 year	796.298	731.791
Over 1 year	35.870.606	32.757.708
Due outstanding receivables	**1.281.437**	**5.366.908**
Up to three months	409.545	657.487
From three months to 6 months	4.218	8.595
From 6 months to 1 year	72.748	49.397
Over 1 year	794.927	4.651.429
Other exposures	**42.518.528**	**41.162.832**
Up to three months	41.968.813	38.201.431
From three months to 6 months	57.008	70.209
From 6 months to 1 year	276.947	201.461
Over 1 year	215.760	2.689.731
Total	**386.597.135**	**351.271.126**

**Note: gross exposure reduced by allowances, provisions for estimated losses and required reserves and adjusted for conversion factors for off-balance sheet items upon application of mitigation techniques*

Changes in allowances and provisions RSD 000

	Loans to banks	Loans to customers	Investment securities	Other assets	Off-balance sheet exposure	Total
Balance as of 01.01.2014	325.374	18.830.581	45.185	1.764.028	473.647	21.438.815
Increase	2.468	9.835.443	9.428	260.163	540.305	10.647.807
Decrease	(2.452)	(6.714.653)	(12.715)	(746.993)	(445.528)	(7.922.341)
Transfer from off-balance sheet	–	394.977	–	–	–	394.977
FX gains/losses	43.199	452.908	94	9.486	–	505.687
Write-offs	–	(268.885)	–	(1.530)	–	(270.415)
Other changes	–	554.606	78.229	21.147	–	653.982
Balance as of 31.12.2014	**368.589**	**23.084.977**	**120.221**	**1.306.301**	**568.424**	**25.448.512**

Note: Allowances for fixed assets, intangible investments and inventories are not included in the allowance and provisions changes

Exposure according to risk categories and client type as of 31.12.2014 RSD 000

Classification	Corporate clients	Banks	Retail clients	Total
A	69.816.710	27.247.027	68.727.352	165.791.089
B	37.841.899	4.023.427	7.578.534	49.443.860
V	7.736.109	25.269	1.134.697	8.896.075
G	2.377.523	-	969.619	3.347.142
D	40.651.814	1.834.316	4.974.461	47.460.591
Total	**158.424.055**	**33.130.039**	**83.384.663**	**274.938.757**

**Note: total exposure to credit risk by risk category and client type is shown in gross amount before mitigation effect based on the amount of impairment.*

Overview of credit loss reserves and required reserves by client type as of 31.12.2014 RSD 000

Type of Client	Credit Loss Reserves	Required Reserves
Corporate clients	42.941.478	24.173.278
Banks	1.918.575	83.924
Retail clients	5.522.842	2.092.512
Total	**50.382.895**	**26.349.714**

Use of credit ratings

- During 2014 for the class of exposure to countries and central banks, the Bank used credit ratings of the external credit rating agency Moody's.
- For exposures in the form of financial instruments from the banking book, the Bank does not use the credit ratings of the issuers nor their specific issues due to their non-existence. For financial instruments issued by the Republic of Serbia, the Bank applies the preferential risk weight, or 0%.

Credit rating assignment to credit risk levels

Moody's credit rating	Aaa – Aa3	A1-A3	Baa1 – Baa3	Ba1 – Ba3	B1 – B3	Caa1 - D
The level of credit quality	1	2	3	4	5	6
Credit risk weight	0%	20%	50%	100%	100%	150%

Overview of classes of exposure to states and central banks per credit quality level and risk weight RSD 000

Categories of lowest export insurance premiums	Credit risk weight	Exposure amount before application of credit protection instruments		Exposure amount after application of credit protection instruments e	
		31.12.2014.	31.12.2013.	31.12.2014.	31.12.2013.
States and central banks		**138.215.755**	**112.394.186**	**145.845.110**	**120.446.955**
1	0%	138.215.755	112.394.186	145.845.110	120.446.955

Credit Risk Mitigation Techniques

Valuation of credit protection instruments and their managing

- The Bank has the Valuation of Collateral Methodology regulated by its internal documents the valuation of credit protection instruments and their managing.
- The types of security for the receivables and instruments on that basis are in each concrete case determined by the special provision of the Agreement between the Bank and the applicant, and their procuring after the conclusion of the agreement and prior to realization of the loan.
- The Bank pays attention to regular assessment/valuation of the collaterals, which is necessarily conducted prior to the conclusion of the loan agreement and during the agreement validity. Securities are assessed on monthly basis.
- The acceptable loan amount and collateral value ratio is based on the assessed collateral value, which is adjusted by application of defined percentage depending on type of collateral, thereby establishing the liquidation value of the collateral that the Bank can collect.

Description of basic types of credit protection instruments

- The Bank uses the following credit protection instruments:
  - material credit protection;;
  - non-material credit protection;
- Among the instruments of material credit protection, the Bank uses the financial instruments by applying the complex method in accordance with the regulations of the National Bank of Serbia. As to financial instruments, the Bank uses as appropriate instruments of protection:
  - cash and cash equivalents deposited with the Bank, such as the deposits placed as collateral;
  - Securities, which include debt securities issued by the states and central banks, and shares.
- As a form of non-material credit protection, the Bank uses guarantees, other forms of sureties, counter-guarantees, etc.

Basic types of credit protection providers

- In the case of using the guarantee as a credit protection instrument, the Bank uses the guarantees issued by:
  - states,
  - banks,
  - territorial autonomies,
  - other.
- A guarantee as a credit protection instrument is taken only if the guarantor's risk weight is more favorable than the counterparty's risk weight.

Data about market or credit risk concentration within the applicable mitigation techniques

- The Bank follows up and manages the credit and market risk concentration in the segment of large exposures by also considering the issuers of eligible security instruments. Also, the Bank reports to the management on monthly basis on large exposures
- In order to manage the concentration risk in the framework of used credit risk mitigation techniques:
  - Analysis is made of indirect exposure to the credit protection provider, within the credit process;
  - The exposure limit system is established.
- The major part of eligible non-material credit protection instruments account for the guarantees of the Government of the Republic of Serbia

Exposures secured by credit protection instruments per classes of assets RSD 000

Exposure to credit risk	Amount of exposures secured by material credit protection instruments		Amount of exposures secured by non-material credit protection instruments	
	31.12.2014.	31.12.2013.	31.12.2014.	31.12.2013.
States and central banks	–	–	–	–
Territorial autonomies and local government units	–	–	–	–
International development banks	–	–	–	–
Banks	–	–	–	–
Companies	891.683	825.671	7.629.355	8.066.889
Private individuals	682.992	644.424	–	3.051
Exposures secured by mortgages on real property	8.960	20.821	–	–
Due outstanding receivables	–	–	–	–
Other exposures	–	19.109	–	–
Total	**1.583.635**	**1.510.026**	**7.629.355**	**8.069.940**

**Note: exposure presented after application of the conversion factor and volatility factor*

5.2. Counterparty Risk

Counterparty Risk

- Bank performs transactions in the trading book and banking book which fall under the counterparty risk, and in part of operations with:
  - Financial derivatives;
  - Repo and reverse repo transactions.
- For the needs of calculating the exposure of the positions that are subject to calculation of the capital requirements for the counterparty risk, the Bank uses:
  - the current exposure method for financial derivatives;
  - the complex method for calculation of adjusted transaction and collateral value in the case of repo and reverse repo transactions, and for the lending and borrowing transactions. A characteristic of „repo" transactions performed by the Bank with the National Bank of Serbia is that the collateral cannot be used as an eligible credit protection instrument since the collateral issuer and the counterparty is one and the same.

Exposure to counterparty risk RSD 000

Type of risk	Exposure value
Exposures to counterparty risk	7.000.000

5.3. Liquidity Risk

- The Bank may be exposed to the risk of inability to settle matured obligations (default risk), as well as to possible occurrence of a liquidity crisis on the basis of external and internal factors. Internal factors relate to the structure of the Bank's liabilities in terms of the deposit potential and share of adequate sources of funding in Bank's liabilities (funding sources risk), while external factors relate to exposure to non-marketability of assets in the case of need to acquire the sources of funding.
- The Bank manages in short-term the liquidity risk by monitoring/following up and controlling the positions in all major currencies in order to timely perceive the needs for additional sources of financing in case of maturity of the corresponding positions, and/or in long-term it plans the structure of its sources and loans so as to provide the enough stable sources and sufficient liquidity reserves.
- On short-term basis, the Bank manages the liquidity ratio which it limited to 1 on daily basis, and also the more specific liquidity ratio which it complies with the regulatory defined limits. On long-term basis, the Bank has defined the financial leverage to equal maximum 90%.
- On monthly basis the bodies of the Bank monitor the liquidity crisis indicators and the structure of liquidity reserves.
- The Bank tests the Plan for managing liquidity in crisis situations, by which it identifies the possible crisis, tests the survival period and solvency of the Bank in presumed crisis conditions, and also perceives and analyzes the accessibility of sources for covering potential obligations, and/or assesses the accompanying organizational support (public relations and the Plan for the case of occurrence of unforeseen events).
- The Bank has developed its own internal approach for the needs of determining the capital required for covering the liquidity risk.

5.4. Managing Interest Rate Risk in the Banking Book

- The Bank is exposed to:
  - The risk of change in prices (repricing risk), which arises from the mismatch of assets and liabilities items relative to the remaining maturity (for positions with fixed interest rate) and price redetermination (for positions with variable interest rate);
  - Yield curve risk
  - Basis risk due to changes of different reference interest rates in case of interest rate sensitive positions with similar characteristics in terms of maturity or re-pricing,
  - Options risk, to which it may be exposed due to contractual provisions in connection with interest rate sensitive positions, as well as built-in minimum and maximum interest rates options.

- The Bank measures the exposure to interest rate risk by Gap and ratio analysis, interest rate shock and duration on monthly basis and by stress tests and simulations minimum on semiannually basis.

- For the needs of preparation of interest rate GAP, the mentioned positions are categorized in the following manner:
  - positions with agreed fixed interest rate are categorized according to maturity period,
  - positions with agreed market variable interest rate are categorized according to the repricing period provided such period is shorter than the maturity period,
  - positions with agreed variable interest rate in accordance with the Bank's business policy are categorized according to maturity period, assets and liabilities not having a defined maturity or having the maturity other than the agreed one are categorized in relevant time frames based on the analysis of such positions in the previous period (assessment and prior experience).
- The Bank regularly performs the stress testing of the interest rate risk by which it assesses the impact of the change in the key factors on the Bank's interest rate risk. In modeling the scenarios, apart from the changes in interest rates, the impact of early withdrawal of deposits and prepayments of loans are particularly taken into consideration, which are analyzed by the bank on the basis of historical trends and expert assessment. The Bank assessed the movement of transaction deposits, demand deposits and retail savings deposits by applying the relevant statistical models in the field of time series analysis.
- The Bank has limited to 20% the impact on the economic value of capital and has internally developed a model for calculation of capital requirements for the interest rate risk.

5.5. Market Risks

- The Bank is exposed to the risk of changes in the exchange rate of inter-currency pairs on the positions of the banking book and trading book (foreign exchange risk) as well as to the change in the price of equity and debt securities that are recorded in the trading book (price risk).
- In the structure of currency exposure, dominant is the exposure to currency EURO, then to CHF, and also exposure to currency USD. Internal factors of exposure to foreign exchange risk originate from currency structure of loans and deposits: loans are primarily agreed in RSD with currency clause (EUR and CHF), whereas deposits are mostly in currency EUR. Exposure to foreign exchange risk remained during 2014 within internally and externally defined limits and average FX risk ratio was about 2,58%.
- In the structure of price risk exposure dominant are trading bonds, whereas equity instruments participate slightly.
- The Bank is insignificantly exposed to the price risk, which is also demonstrated by the share of the trading book in total operations of the Bank, which is below 1%.
- The Bank has developed the customized internal approach for the purpose of establishing the required internal capital for covering the foreign exchange risk, for whose application it has not requested the permission of the National Bank of Serbia. The Bank calculates the minimum capital requirements for these risks by using the standardized approach.

5.6. Exposures Arising from Equity Investments in the Banking Book

- Equity investments in the companies founded by the Bank in order to expand the offer of financial products and services have taken place for economic reasons or local regulations that impose that the offer of certain financial products and services must be made through companies exclusively founded for that purpose. This is the reason why the Bank has founded Komercijalna banka AD Budva, Komercijalna banka AD Banja Luka, as well as the Investment Fund Management Company (Kombank INVEST AD Beograd).
- In addition to majority stakes in subsidiaries, the Bank also holds minority equity investments in companies, which enable it to perform certain types of financial services.
- Equity stakes are initially assessed at purchase price and at the balance sheet date at market value, if the same is known. The changes in market value are stated within the capital, credited or charged to revaluation reserves until the disposal of the funds when the revaluation reserves are transferred to income or expenses.
- In case when equity stakes record a fall in fair value, with the objective evidence of impairment of assets (long and continuous decline in value over a period longer than twelve months, as well as decline in value above 30% of assets purchase price), accumulated loss is recognized as an impairment charge, although the recognition of a financial asset has not stopped, (IAS 39.59, IAS 39.67 and IAS 39.68).
- As to the investments in capital, intention is to hold them for an indefinite time period. These investments may be sold depending on liquidity needs or in the case of change in market prices. Investments in capital for which there is no active market are valued at purchase price.

Exposure per investment purpose as of 31.12.2014 RSD 000

Equity investments in banking book	Carrying value	Allowances	Fair value	Realized gain/loss	Unrealized gain	Unrealized loss
Subsidiary legal entities in the	140.000	–	140.000	–	–	–
Subsidiary banks abroad	5.340.888	–	5.340.888	–	–	–
Banks and financial organizations	143.383	26.683	116.700	–	6.161	–
Companies and other legal	460.913	421.898	39.015	–	10.036	–
Foreign entities abroad	591.248	–	591.248	–	591.248	–
Total	**6.676.432**	**448.581**	**6.227.851**	**–**	**607.445**	**–**

Exposure value as of 31.12.2013 RSD 000

Exposure type	Carrying value	Fair value
Holdings and investments in capital	–	–
quoted on stock exchange	744.284	666.093
not quoted on stock exchange	451.260	80.870
Subsidiary legal entities	5.480.888	5.480.888
Total	**6.676.432**	**6.227.851**

- In 2013, the Bank did not achieve realized gain / loss which arise from sale or from closing the positions based on equity investments.
- Total unrealized gain/loss originating from equity investments is shown in the table, while the amount of unrealized gains which is included in calculation of supplementary capital is reduced by 10%. Unrealized losses are not reduced when included in supplementary capital.

5.7. Banking Group

- Banking Group of Komercijalna banka AD Beograd is consisted of Komercijalna banka AD Beograd, as a parent bank and three subsidiary legal entities.
- Financial statements of all the members of the Banking Group are consolidated by full consolidation method in accordance with relevant IAS/IFRS.

Members of the Banking Group

- Komercijalna banka AD Budva (100% owned by the Bank),
- Komercijalna banka AD Banja Luka (99,99% owned by the Bank),
- Investment Fund Management Company Kombank INVEST AD Beograd (100% owned by the Bank)

- The parent bank does not have related entities to whose financial statements the method of proportional consolidation and equity method would be applied or which would be excluded from consolidation because of a Group member's participation that represents a deductible item from the Group capital.

5.7.1. Overview of Differences between Consolidated Financial Statements

		Consolidation for supervision		Consolidation pursuant to IFRS	
Company type	Company name	Consolidation method		Consolidation method	
		Full	Equity method	Full	Equity method
Bank	Komercijalna banka AD Beograd	X		X	
	Komercijalna banka AD Budva	X		X	
	Komercijalna banka AD Banja Luka	X		X	
Investment Fund Management Company	KomBank INVEST AD Beograd		X	X	

5.7.2. Legal or Other Impediments for the Transfer of Capital

- There were no legal or other impediments in the previous period for a timely transfer of capital and settlement of obligations between the parent bank and subsidiary companies within the Banking Group business operations.
- In the forthcoming period, the parent bank does not expect any difficulties in the cash flows between the Banking Group members or any legal and other impediments in business operations.

6. ENCLOSURES

In accordance with the Decision on Disclosure of Data and Information by Banks, the Bank is required to disclose the data and information on capital on the following forms.

6.1. Enclosure 1 - Data on Bank's capital position (PI-KAP)

Rednji br.	Naziv pozicije	Iznos
I	TOTAL CORE CAPITAL	33.286.532
1.	CORE CAPITAL BEFORE DEDUCTIONS	60.669.990
1.1.	Par value of paid-in shares, except cumulative preferential shares	17.191.466
1.2.	Share premium	22.843.084
1.3.	Reserves from profit	20.635.440
1.4.	Retained earnings from previous years	–
1.5.	Profit of the current year	–
1.6.	Minority participations in subordinate companies	–
1.7.	Other positive consolidated reserves	–
2.	DEDUCTIBLES FROM CORE CAPITAL	27.383.458
2.1.	Losses from previous years	–
2.2.	Loss of the current year	–
2.3.	Intangible assets	405.774
2.4.	Acquired own shares, except cumulative preferential shares	–
2.5.	Amount of shares received in pledge, except cumulative preferential shares	357.233
2.6.	Regulatory value adjustments:	26.620.451
2.6.1.	Unrealised losses on securities available for sale	270.737
2.6.2.	Other net negative revaluation reserves	–
2.6.3.	Gains on bank liabilities measured at fair value due to the change in bank's credit rating	–
2.6.4.	Required reserve from profit for estimated losses on balance-sheet assets and off-balance sheet items of the bank	26.349.714
2.7.	Other negative consolidated reserves	-
II	TOTAL SUPPLEMENTARY CAPITAL	4.593.961
1.	SUPPLEMENTARY CAPITAL BEFORE DEDUCTIONS	4.593.961
1.1.	Par value of paid in cumulative preferential shares	–
1.2.	Share premium on cumulative preferential shares	–
1.3.	Part of revaluation reserves of the bank	2.174.795
1.4.	Hybrid instruments	
1.5.	Subordinated liabilities	2.419.166
1.6.	Overallocation of impairment allowances, provisions and required reserves from profit relative to expected losses	–
2.	DEDUCTIBLES FROM SUPPLEMENTARY CAPITAL	–
2.1.	Acquired own cumulative preferential shares	–
2.2.	Receivables in respect of balance-sheet assets and off-balance sheet items of the bank secured by a hybrid instrument or subordinated liability	–
2.3.	Amount of cumulative preferential shares received in pledge	–
2.4.	Amount of capital in excess of limitations on supplementary capital	–
III	TOTAL CAPITAL	32.325.138
1.	TOTAL CAPITAL BEFORE DEDUCTIONS	37.880.493
2.	DEDUCTIBLES FROM CAPITAL	5.555.355
	Of which reduction in core capital	2.777.678
	Of which reduction in supplementary capital	2.777.678
2.1.	Direct or indirect investment in banks and other financial sector persons that exceed 10% of the capital of such banks and/or other financial sector persons	5.555.355
2.2.	Investment in hybrid instruments and subordinated liabilities of other banks and financial sector persons in which the bank has direct or indirect investment that exceeds 10% of the capital of such persons	–
2.3.	Total amount of direct and indirect investment in banks and other financial sector persons in the amount of up to 10% of their capital, as well as investment in their hybrid instruments and subordinated liabilities that exceeds 10% of the sum of core and supplementary capital of the bank for which the calculation of capital is made	–
2.4.	The amount by which qualified participation in non-financial sector persons has been exceeded	–
2.5.	Underallocation of impairment allowances, provisions and required reserves from profit relative to expected losses	–
2.6.	The amount of exposure to free deliveries if the counterparty failed to fulfil its obligation within four working days	–
2.7.	Receivables from and potential liabilities toward persons related to a bank or employees in the bank which the bank has negotiated under the terms that are more favourable than the terms negotiated with other parties	–
IV	NOTES	–
	Positive/negative difference between total impairment allowances for balance sheet assets, provisions for losses on off-balance sheet items and required reserves from profit on the one hand, and total estimated losses under IRB approach on the other	–
	Amount of impairment allowances, provisions and required reserves from bank's profit	–
	Of which on a group basis	–
	Of which on an individual basis	–
	Amount of expected losses under IRB approach	–
	Gross amount of subordinated liabilities	6.047.915

In addition to the financial instruments disclosed within the form PI-FIKAP (Enclosure 2), the capital calculation includes also the following elements:

- **Reserves from profit** – This element of the core capital comprises all types of reserves that are formed chargeable to profit after its taxation, in line with the Decisions of the General Meeting of Bank's Shareholders.
- **Intangible assets** – Investments in licenses, software and similar rights, net of calculated depreciation, represent a deductible from core capital.
- **Amount of Bank's shares received in pledge, except cumulative preferential shares** – The Bank received in pledge own ordinary shares from certain number of its clients. By comparing the value of receivable secured by pledged shares and nominal value of received shares increased by accompanying issue premium, for each client separately, we get the amount which represents a deductible from the core capital.
- **Unrealized losses on securities available for sale** – The stated losses represent a deductible from core capital and are a result of negative fluctuations of prices of relevant instruments in relation to their initial value.
- **Required reserve from profit for estimated losses on balance-sheet assets and off-balance sheet items of the bank** – The stated reserve is calculated in line with the Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items and represents a deductible from core capital.
- **Part of revaluation reserves of the bank** – Increase in value of fixed assets which has been determined by the assessment performed by the independent appraiser, and positive effects of changes in fair value of securities available for sale affected the establishment of positive revaluation reserves. The stated reserves are reduced by the effects of the potential tax liabilities and as such are included in Bank's supplementary capital.
- **Subordinated liabilities** – In accordance with the regulations of the National Bank of Serbia, the Bank in December 2011 strengthened the capital base by taking the subordinated loan in the amount of EUR 50 million from International Finance Corporation. Maturity is 6 years and the Bank, in line with the Decision on Capital Adequacy rendered by the National Bank of Serbia, at the end of 2014 includes in supplementary capital 40% of the received subordinated loan.
- **Direct or indirect investment in banks and other financial sector persons that exceed 10% of the capital of such banks and/or other financial sector persons** – The Bank has equity stake with the following subsidiaries: Kombank invest ad Beograd, Komercijalna banka ad Banja Luka and Komercijalna banka ad Budva. Total investments in subsidiaries as at 31.12.2014 amount to RSD 5.481 million. In addition to the mentioned investments, the Bank also has equity stake with Euroaxis bank ad Moskva, which exceeds 10% of that legal entity's capital.

6.2. Enclosure 2 - Data on Basic Characteristics of Financial Instruments Included in Calculation of Bank's Capital (PI-FIKAP)

No.	Characteristics of instrument	Description –ordinary share	Description – preferential share
1.		Komercijalna banka AD, Beograd	Komercijalna banka AD, Beograd
2.	Treatment in compliance with as per legislation		
2.1.	Treatment in compliance with as per the Decision on Capital Adequacy of Banks	Instrument of core capital	Instrument of core capital
2.2.	Individual/group/individual and group level of inclusion of instrument in capital at on a group level	-	-
2.3.	Type of instrument	Ordinary shares	Non-cumulative preferential shares
3.	Amount recognised for the purpose of calculating regulatory capital (in RSD thousand, as at the last reporting date)	39.661.040	373.510
4.	Nominal value of instrument	In total 16.817.956 of ordinary shares were issued, whereby nominal value of a single share amounts to RSD 1.000.	In total 373.510 of non-cumulative preferential shares were issued, whereby nominal value of a single share amounts to RSD 1.000
5.	Accounting classification	Share capital	Share capital
6.	Initial date of issuance of instrument - Date of initial issuance	May 6, 1992	May 6, 1992
7.	Instrument with or without with no maturity date.	No maturity date a	No maturity date a
7.1.	Original maturity	No maturity date a	No maturity date a
8.	Does the issuer have call option With or with no issuer call option	No	No
8.1.	First day of activating call option right First date of call option activation	-	-
8.2.	Subsequent dates of activating call option activation (if applicable)	-	-
9.	Coupons/dividends	-	-
9.1.	Fixed or variable dividends/coupons	Variable	Variable
9.2.	Full, partial or no discretion regarding the time of payment of dividends/coupons	Full discretion	Full discretion
9.3.	Full, partial or no discretion regarding the amount of dividends/coupons	Partial discretion	Partial discretion
9.4.	Step up option	No	No
9.5.	Non-cumulative or cumulative dividends/coupons	Non-cumulative	Non-cumulative
10.	Convertible or non-convertible instrument	Non-convertible	Non-convertible
10.1.	If convertible, terms under which conversion may take place terms of conversion	-	-
10.2.	If not it is convertible, specify if it is partially or fully convertible	-	-
10.3.	If it is convertible, rate of conversion.	-	-
10.4.	If it is convertible, mandatory or voluntary conversion	-	-
10.5.	If it is convertible, specify instrument to which it is converted.	-	-
10.6.	If it is convertible, the issuer of the instrument to which it is converted.	-	-
11.	Write-off option	No	No
11.1.	If there is write-off option, specify terms of the write-off under which the write-off may take place.	-	-
11.2.	If there is write-off option, specify if partial or full partial or full write-off.	-	-
11.3.	If there is write-off option, spefify if temporary or permanent write-off	-	-
11.4.	If it is a temporary write-off, terms under which it is recognised again If the write-off is temporary,specify terms of re-recognition	-	-
12.	Type of an instrument which will be paid off directly before the said instrument during liquidation	Non-cumulative preferential shares	Subordinated debt

6.3. Enclosure 3 – Data on Connecting the Capital Positions from Balance Sheet with the Positions from the Form (PI-UPK)

6.3.1. Itemizing of elements in Balance Sheet – 31.12.2014

Designation	Item	Balance sheet	References
A	**ASSETS**		
A.I	Cash and assets with the central bank	68.547.389	
A.II	Pledged financial assets	–	
A.III	Financial assets recognised at fair value through income statement and held for trading	121.634	
A.IV	Financial assets initially recognised at fair value through income statement	–	
A.V	Financial assets available for sale	95.481.249	
A.VI	Financial assets held to maturity	51.442	
A.VII	Loans and receivables from banks and other financial organisations	34.737.605	
A.VIII	Loans and receivables from clients	185.377.035	
A.IX	Changes in fair value of hedged items	–	
A.X	Receivables arising from financial derivatives intended for hedging	–	
A.XI	Investments in associated companies and joint ventures	–	
A.XII	*Of which direct or indirect investments in banks and other financial sector person persons*	5.480.888	
	Investments into subsidiaries	5.480.888	**s**
A.XIII	*Of which direct or indirect investments in banks and other financial sector persons*	405.774	**r**
A.XIV	Intangible assets	6.329.077	
A.XV	Property, plant and equipment	2.581.144	
A.XVI	Investment property	73.835	
A.XVII	Current tax assets	–	
A.XVIII	Deferred tax assets	84.227	
A.XIX	Non-current assets held for sale and discontinued operations	6.990.225	
	Other assets	74.467	**i**
A.XX	*Of which direct or indirect investment in banks and other financial sector persons that exceed 10% of the capital of*	**406.261.524**	
R	**TOTAL ASSETS (ADP items from 0001 to 0019 in the consolidated balance sheet)**	–	
RO	**LIABILITIES**	–	
RO.I	LIABILITIES	–	
RO.II	Financial liabilities recognised at fair value through income statement and held for trading	–	
RO.III	Financial liabilities initially recognised at fair value through income statement	–	
RO.IV	Liabilities arising from financial derivatives intended for hedging	23.743.018	
RO.V	Deposits and other liabilities to banks, other financial organisations and central bank	301.954.911	
RO.VI	Deposits and other liabilities to other clients	–	
RO.VII	Changes in fair value of hedged items	–	
RO.VIII	Own securities issued and other borrowings	6.036.680	
	Of which liabilities arising from hybrid instruments	2.419.166	**ž**
RO.IX	Subordinated liabilities	1.640.595	
RO.X	*Of which subordinated liabilities included in bank's supplementary capital*	–	
RO.XI	Provisions	–	
RO.XII	Liabilities under assets held for sale and discontinued operations	150.407	
RO.XIII	Current tax liabilities	3.189.109	
RO.XIV	Deferred tax liabilities	336.714.720	
	Other liabilities		
RO.XV	TOTAL LIABILITIES (ADP items from 0401 to 0413 in the consolidated balance sheet)	40.034.550	
	CAPITAL	17.191.466	**a**
	Share capital	22.843.084	**b**
RO.XVI	*Of which par value of paid-in shares, except for cumulative preferential shares*	–	
RO.XVII	*Of which share premium on share capital, except for cummulative preferential shares*	6.755.855	
RO.XVIII	*Of which par value of cumulative preferential shares*	–	
RO.XIX	*Of which share premium on cumulative preferential shares*	22.756.399	
	Own shares	20.635.440	**v**
	Of which acquired own shares, except for cumulative preferential shares	270.737	**đ**
	Of which acquired own cumulative preferential shares	166.887	
	Profit	2.558.583	**e**
RO.XX	*Of which retained earnings from previous years*	–	
RO.XXI	*Of which profit of the current year*	–	
RO.XXII	Loss	**69.546.804**	
RO.XXIII	*Of which losses from previous years*	–	
RO.XXIV	*Of which loss in the current year*	**406.261.524**	
V.P.	Reserves		
V.P.A.	*Of which reserves from profit which represent element of core capital*	373.803.974	
	Of which other positive consolidated reserves	357.233	**d**
V.P.P.	*Of which other negative consolidated reserves*	373.803.974	
	Of which other net negative revaluation reserves		
	Of which gains on bank liabilities measured at fair value due to the change in bank's credit rating		

6.3.2. Connecting positions in Itemized Balance Sheet with the Positions in the Form – 31.12.2014

No	Item	Amount	Data source in accordance with references from step 2
I	TOTAL CORE CAPITAL	33.286.532	
1.	CORE CAPITAL BEFORE DEDUCTIONS	60.669.990	
1.1.	Par value of paid-in shares, except for cumulative preferential shares	17.191.466	a
1.2.	Share premium	22.843.084	b
1.3.	Reserves from profit	20.635.440	v
1.4.	Retained earnings from previous years	–	
1.5.	Profit of the current year	–	
1.6.	Minority participations in subordinate companies	–	
1.7.	Other positive consolidates reserves	–	
2.	DEDUCTIBLES FROM CORE CAPITAL	27.383.458	
2.1.	Losses from previous years	–	
2.2.	Loss of the current year	–	
2.3.	Intangible assets	405.774	g
2.4.	Acquired own shares, except for cumulative preferential shares	–	
2.5.	Amount of shares received in pledge, except for cumulative preferential shares	357.233	d
2.6.	Regulatory value adjustments:	26.620.451	
2.6.1.	Unrealised losses on securities available for sale	270.737	đ
2.6.2.	Other net negative revaluation reserves	–	
2.6.3.	Gains on bank liabilities measured at fair value due to the change in bank's credit rating	–	
2.6.4.	Required reserve from profit for estimated losses on balance-sheet assets and off-balance sheet items of the bank	26.349.714	
2.7.	Other negative consolidates reserves	–	
II	TOTAL SUPPLEMENTARY CAPITAL	4.593.961	
1.	SUPPLEMENTARY CAPITAL BEFORE DEDUCTIONS	4.593.961	
1.1.	Par value of paid in cumulative preferential shares	–	
1.2.	Share premium on cumulative preferential shares	–	
1.3.	Part of revaluation reserves of the bank	2.174.795	e*85%
1.4.	Hybrid instruments	–	
1.5.	Subordinated liabilities	2.419.166	ž
1.6.	Overallocation of impairment allowances, provisions and required reserves from profit relative to expected losses	–	
2.	DEDUCTIBLES FROM SUPPLEMENTARY CAPITAL	–	
2.1.	Acquired own cumulative preferential shares	–	
2.2.	Receivables in respect of balance-sheet assets and off-balance sheet items of the bank secured by a hybrid instrument or subordinated liability	–	
2.3.	Amount of cumulative preferential shares received in pledge	–	
2.4.	Amount of capital in excess of restrictions on supplementary capital	–	
III	TOTAL CAPITAL	32.325.138	
1.	TOTAL CAPITAL BEFORE DEDUCTIONS	37.880.493	
2.	DEDUCTIBLES FROM CAPITAL	5.555.355	
	Of which reduction in core capital	2.777.678	
	Of which reduction in supplementary capital	2.777.678	
2.1.	Direct or indirect investment in banks and other financial sector persons that exceed 10% of the capital of such banks and/or other financial sector persons	5.555.355	(z+i)
2.2.	Investment in hybrid instruments and subordinated liabilities of other banks and financial sector persons in which the bank has direct or indirect investment that exceeds 10% of the capital of such persons	–	
2.3.	Total amount of direct and indirect investment in banks and other financial sector persons in the amount of up to 10% of their capital, as well as investment in their hybrid instruments and subordinated liabilities that exceeds 10% of the sum of core and supplementary capital of the bank for which the calculation of capital is made	–	
2.4.	The amount by which qualified participation in non-financial sector persons has been exceeded	–	
2.5.	Underallocation of impairment allowances, provisions and required reserves from profit relative to expected losses	–	
2.6.	The amount of exposure to free deliveries if the counterparty failed to fulfill its obligation within four working days	–	
2.7.	Receivables and potential liabilities towards persons related to a bank or employees in the bank which the bank has negotiated under the terms that are more favourable than the terms negotiated with other parties	–	
IV	NOTES	–	
	Positive/negative difference between total impairment allowances for balance sheet assets, provisions for losses on off-balance sheet items and required reserves from profit on the one hand and total estimated losses under IRB approach on the other hand	–	
	Amount of impairment allowances, provisions and required reserves from bank's profit	–	
	Of which on a group basis	–	
	Of which on an individual basis	–	
	Amount of expected losses under IRB approach	–	
	Gross amount of subordinated liabilities	6.047.915	

6.4. Enclosure 4 - Data on Total Capital Requirements and Capital Adequacy Ratio (PI-AKB)

No	Name	Amount	Coverage by core capital	Coverage by supplementary capital
		1	2	3
I	CAPITAL	32.325.138		
1.	TOTAL CORE CAPITAL	30.508.855		
2.	TOTAL SUPPLEMENTARY CAPITAL	1.816.284		
II	CAPITAL REQUIREMENTS	21.954.227		
1.	CAPITAL REQUIREMENTS FOR CREDIT RISK, COUNTERPARTY RISK AND SETTLEMENT/DELIVERY RISK IN CASE OF FREE DELIVERIES	19.550.391	19.550.391	–
1.1.	Standardised approach (SA)	162.919.928		
1.1.1.	*Exposures to central governments and central banks*	–		
1.1.2.	*Exposures to territorial autonomies and local self-government units*	974.572		
1.1.3.	*Exposures to public administrative bodies*	211		
1.1.4.	*Exposures to multilateral development banks*	279		
1.1.5.	*Exposures to international organisations*	–		
1.1.6.	*Exposures to banks*	8.134.912		
1.1.7.	*Exposures to corporates*	88.694.064		
1.1.8.	*Retail exposures*	28.188.057		
1.1.9.	*Exposures secured by real estate collateral*	23.246.327		
1.1.10.	*Past due items*	1.324.471		
1.1.11.	*High-risk exposures*	–		
1.1.12.	*Exposures in the form of covered bonds*	–		
1.1.13.	*Exposures in the form of open-end investment funds*	–		
1.1.14.	*Other exposures*	12.357.035		
1.2.	Internal Ratings Based Approach (IRB)	–		
1.2.1.	*Exposures to central governments and central banks*	–		
1.2.2.	*Exposures to banks*	–		
1.2.3.	*Exposures to corporates*	–		
1.2.4.	*Retail exposures*	–		
1.2.4.1.	*Retail exposures secured by real estate collateral*	–		
1.2.4.2.	*Qualifying revolving retail exposures*	–		
1.2.4.3.	*Other retail exposures*	–		
1.2.5.	*Equity exposures*	–		
1.2.5.1.	*Approach applied:*	–		
1.2.5.1.1.	*Simple Risk Weight Approach*	–		
1.2.5.1.2.	*PD/LGD Approach*	–		
1.2.5.1.3.	*Internal Models Approach*	–		
1.2.5.2.	*Types of equity exposures*	–		
1.2.5.2.1.	*Exchange traded equity exposures*	–		
1.2.5.2.2.	*Non-exchange traded equity exposures in sufficiently diversified portfolios*	–		
1.2.5.2.3.	*Other equity exposures*	–		
1.2.5.2.4.	*Equity exposures to which a bank applied Standardised Approach to credit risk*	–		
1.2.6.	*Exposures to other assets*	–		
2	CAPITAL REQUIREMENTS FOR SETTLEMENT/DELIVERY RISK ARISING FROM UNSETTLED TRANSACTIONS	–	–	–
3	CAPITAL REQUIREMENTS FOR MARKET RISKS	112.670	112.670	–
3.1.	Capital requirements for price, foreign exchange and commodity risks calculated under standardised approaches	112.670	112.670	–
3.1.1.	*Capital requirements for price risk arising from debt securities*	–	–	–
3.1.2.	*Capital requirements for price risk arising from equity securities*	–	–	–
3.1.3.	*Capital requirements for foreign exchange risk*	112.670	112.670	–
3.1.4.	*Capital requirements for commodity risk*	–	–	–
3.2.	Capital requirements for price, foreign exchange and commodity risks calculated under the Internal Models Approach	–	–	–
4	CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	2.291.166	2.291.166	–
4.1.	Capital requirements for operational risk calculated under the Basic Indicator Approach	–	–	–
4.2.	Capital requirements for operational risk calculated under the Standardised Approach	2.291.166	2.291.166	–
4.3.	Capital requirements for operational risk calculated under the Advanced Approach	–	–	–
5	COVERAGE OF CAPITAL REQUIREMENTS	21.954.227	21.954.227	–
III	CAPITAL ADEQUACY RATIO (%)	17,67%		

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