

# REPORT

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on disclosure of data and information of  
Komercijalna banka AD Beograd for the year 2017

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EXECUTIVE BOARD OF THE BANK

No. 10672/IO

Date: Belgrade, May 24, 2018

## 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 2017.
- 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](http://www.kombank.com)).

THE EXECUTIVE BOARD OF THE BANK

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Dragisa Stanojevic

**Member of the Executive Board**

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Vladimir Medan PhD

**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 11.4%. The head office of the Bank is located in Belgrade, 14, Svetog Save Street. Clients have at their disposal the largest network of 6 business centers, 5 corporate business centers, 1 branch and 203 offices throughout Serbia and 12 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, Swedfund, DEG...), 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 and its risk tolerance.
- 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 of the Bank is in charge of:**

- adopting the Bank's business policy and strategy;
- making decisions on capital increase, or equity investments in another bank or legal entities, as well as on the level of investing in the Bank's fixed assets and investment properties.

#### **Board of Directors is in charge of:**

- passing the Risk Management Strategy, Capital Management Strategy and Plan and risk management policies, as well as other legal documents specified in the regulations of the National Bank of Serbia;
- establishing an internal control system and supervising its efficiency;
- establishing internal organization i.e. the organizational structure of the Bank that provides for distribution of duties, competencies and responsibilities of employees in a manner that prevents the conflict of interest and ensures a transparent and documented process of making and implementing decisions;
- adopting the Remuneration Policy;
- supervision over the Executive Board;
- adoption of quarterly risk management reports;
- adoption of the Recovery Plan;
- adopting the program and the plan of internal audit of the Bank and its methodology;
- ensuring that the internal capital adequacy assessment process (ICAAP) is carried out and is in compliance with the strategic goals.

#### **Audit Committee is in charge of:**

- analyzing annual reports that are submitted to the Board of Directors for consideration and adoption;
- analyzing and adopting the draft strategies and policies of managing risks and the internal control system that are submitted to the Board of Directors for consideration and adoption;
- report to the Board of Directors at least once a month on its activities and identified irregularities and proposes the manner in which such irregularities will be eliminated i.e. how the risk management policies and procedures will be improved and how internal control systems will be implemented.

**Executive Board is in charge of:**

- implements the risk management strategy and policies, along with the capital management strategy by adoption of risk management procedures, for risk identification, measurement and assessment, and by ensuring their application, as well as for reporting to the Board of Directors regarding these activities;
- adopts and analyzes the efficiency of implementation of procedures for risk management, which define more closely the process of identification, measurement and assessment of risks and risk management and reports to the Board of Directors about those activities;
- implementation of business continuity plan and activities of the disaster recovery plan, their revision in accordance with the business changes and continuing testing;
- reports to the Board of Directors on efficiency of implementation of defined risk management procedures;
- reporting to the Board of Directors about the risk exposure level, and making decisions, upon obtaining the prior consent of the Board of Directors, about each increase in the Bank's exposure to a related person and informing the Board of Directors there about;
- adoption of the Rules of Procedure.

**Asset and Liability Management Committee (ALCO) is in charge of:**

- monitors the Bank's exposure to risks that arise from the structure of its balance sheet assets and liabilities 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 is in charge of:**

- 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 risk management strategy and policies;
- defines and proposes for adoption the risk management procedures and methodologies;
- 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 and Liability Management Committee, Credit Committee...);
- undertakes activities and measures to manage non-performing assets.

**Compliance Division is in charge of:**

- 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.

**Anti Money Laundry and Terrorist Financing Department is in charge of the following:**

- identification, monitoring, managing the money laundering and terrorism financing risk;
- at least once a year, performs the analysis and assessment of the Bank's exposure to the anti money laundering and terrorist financing risk;
- submit the report to the Executive Board and the Audit Committee about the money laundry and terrorism financing activities at least once a year.

**Internal Audit Function is in charge of:**

- 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 definitions 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;
  - basic principles of managing non-performing assets.
- 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 non-fulfillment of the debtors' obligations towards 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 Credit 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.
- **Foreign Currency Induced Credit Risk (FCICR)** – 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** (the risk of protecting the environment and social life) – 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 investments in other legal entities and fixed assets and investment properties.
- **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.
  - ✓ **Position 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.
  - **Risk of money laundry and terrorist financing** is the risk of negative effects on financial result, equity or reputation of the Bank due to the use of the Bank (directly or indirectly through misuse of the business relationship with the Bank, transactions, services or products of the Bank) for money laundering and / or terrorist financing.
  - **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 Bank operates, 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;
  - maintaining the NPL to total loans within the defined limits.

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, as well as with its risk tolerance.
- 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, while the risk tolerance represents maximum acceptable level of risks for the Bank.

#### 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.
- Basic risk management principles:
  - to organize operation of a separate organisational unit for risk management at the Bank's level;
  - functional and organisational separation of risk management activities from the regular business activities of the Bank;
  - comprehensive risk management – managing risk includes all three phases and all significant risks that appear in the business;
  - effectiveness of risk management;



- cyclical nature of risk management;
- development of risk management as the strategic decision;
- risk management is a part of business culture – awareness of the importance of risk management is present at all levels of the Bank's organisational structure.

**Principles of managing bad assets, or risky placements:**

- active management over the risk loans, in order to minimize the adverse effect on the financial result and equity of the Bank;
- preventive measures and activities in order to minimize further worsening of the assets quality;
- defining strategies to manage bad assets, or risky placements;
- clearly defined activities of managing bad assets, or risky placements;
- early identification of debtors who are facing financial difficulties or who are defaulting or entered the status of failing to settle their liabilities (the watch list);
- assessment of the financial state of the debtor;
- set of indicators which will serve as the indicators, which, if fulfilled, indicate that the conditions are met to include the debtor in the scope of the organised unit in charge of bad assets' management;
- segmentation of bad assets due to more efficient management;
- materiality principle when defining the possible measures. Higher frequency of monitoring the value of the collateral for risk loans, and the collateral acquired through collection of the receivables;
- organisational separation of the Division for Prevention and Management of Risk Loans in charge of taking the activities and measures to manage bad assets from the organisational unit under whose scope of competence is to take the risk;
- engagement in corporative management and risk management indicators for monitoring bad assets, or risky placements;
- transparent reporting of the Bank's bodies on risk loans, including the efficiency information and effectiveness of measures taken to collect, and measures taken to manage bad assets, i.e. risky placements.

### 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 and other, including the process of managing bad assets, or risky placements;
  - manner of organizing the risk management process of the Bank and clear division of the employees' responsibilities at all stages of that process;
  - identification of key employees in risk management 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).
- Scope and features of the risk reporting system are defined in more detail in point 3.6 of this report.

#### 3.2.1. 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 credit 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 credit risk management system are:
  - the loan approval process;
  - the process of managing the credit risk mitigation techniques;



- the process of monitoring the loans for early detection of warning signals;
- 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;
- process of prevention and management over the potentially risky loans and bad assets;
- the process of calculation of the minimum capital requirement for credit risk and internal capital adequacy assessment process.
- 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 process 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 exposed to counterparty credit risk for the positions in the banking book.
- In accordance with the risk profile the Bank defined the highest acceptable level of non-performing assets.
- 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 limit utilization.
- 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 for 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 Committee and decision making competent authorities in the Risk management function. 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 signals.
- The Bank monitors portfolio quality based on identifying and analysis of the early warning signals of the clients. Warning signals are monitored at regular intervals and based on their analysis, the client is classified into the following categories: standard, potentially risky (Watch list) and NPL clients (clients with problems in settling their liabilities).
- Restructured performing loans are classified into the category of potentially risk client, while the restructured non-performing are classified into NPL client category.
- 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 allowances for impairment...), as well as the exposure to regulatory and internally defined limits.
- A special aspect of monitoring the exposure to credit risk is monitoring the level of bad assets, i.e. risky placements, which includes monitoring:
  - at portfolio level;
  - on individual basis for materially significant exposures;
  - assets acquired by collection in line with internal act that regulates takeover and management over the acquired assets and management of real estate intended for sale.
- Also, monitoring bad assets includes monitoring of execution of measures and strategies defined in order to manage risky placements and funds acquired through collection.
- For the purpose of monitoring and control of concentration risk 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

the loan portfolio diversification.

- 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, the amount of reserves for estimated losses, allowances for impairment, required reserves, exposure risks, exposure and concentration limits...
- Considering the changes in National bank of Serbia regulations and requirements for further risk management process improvements, the Bank conducted significant changes in its organizational structure during the year 2017 (grouping of branches into business centers, changes within Corporate and Retail business functions, changes in decision making process), as well as in its internal acts which regulate risk management process. Changes in Risk management Strategy and Credit Risk Management Policy were adapted so to comply with the changes in local and international regulations, while the credit risk management process was improved in part of comprehensiveness of non-performing assets and exposure to a single party or to a group of related parties.

### 3.2.2 Liquidity Risk

- The basic objective of the liquidity risk management is to maintain the sufficient level of liquid assets for the purposes of regular and timely settlement of due on balance and off-balance sheet liabilities, i.e. 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 separation 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.
- Asset and 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).
- 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 narrow liquidity ratio, as well as liquidity coverage ratio (LCR);
  - 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 and LCR maintained at the level above 100%.
- 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 mismatches. The Bank has defined the internal standards for liquidity risk management, which refer to defined internal limit of liquidity ratio, narrow liquidity ratio and LCR, limits of liquidity gaps by maturity and currencies, structural liquidity limits, identification and quantification of early warning liquidity crisis indicators.
- 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 well as the 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 mitigation 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 Bank has set up a liquidity risk reporting system which includes an assessment and analysis of its exposure to liquidity risk, compliance with external and internal limits, results of stress testing and proposed measures, as well as results of the completed testing of the Liquidity Contingency Plan (LCP).

### 3.2.3. Interest Rate Risk in 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 in the banking book.
- The Bank has established an appropriate organizational structure, business activities, decision-making and responsibilities lines, by clear separation of risk assumption process from risk management process.
- Asset and Liability Management Committee has a significant and primary role in interest rate risk management process, within its competences. 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 the 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 of maturity and currency mismatches for the purpose of preserving the economic value of capital, i.e. minimizing the negative impact of interest rate changes on exposure to interest rate risk;
  - optimization of the cost of funds with fine-tuning 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 well as 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 testing and proposals of measures.

### 3.2.4. Market risks

- The Bank is continually exposed to foreign exchange risk and position risk in its everyday operations.

#### 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 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 separation of foreign exchange risk assumption process from the process of its management and the support processes.
- Assets and Liabilities Management Committee 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 transactional and balance sheet exposures, 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 currency denominated portfolio for all the currencies.
- Measurement of foreign exchange risk includes the assessment of the current and the potential 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 Bank's 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, 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.
- 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 testing and proposals of measures.

#### Position Risk Management

- The Bank has established an appropriate organizational structure, business activities, decision-making and responsibilities lines, by clear separation of risk assumption process from the process of its management and support, considering the principles of the risk management system of the trading book.
- The Executive Board has a significant role in the management of risks arising from the trading book. Other Bank's committees and boards also have a role in position risk management process and their decisions may affect the Bank's exposure to the stated risk.
- Basic principles for Bank's position 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 risks arising from the trading book operations includes the following implementation:
  - standardized (regulatory prescribed) approach;
  - internal model by using Value-at-Risk approach.
- Mitigation of position 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 position risk mitigation characterize the phase of mitigating the position 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, investment limits 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 position risk internal control is integrated in all business activities of the Bank, as well as the independent control of the assessment of adequacy, reliability and efficiency of the position risk management system.
- The Bank performs external and internal reporting pursuant to the established system of reporting on the position risk.

### 3.2.5. Operational Risk

- 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) and internal approach (stress testing) and
  - 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 limits;
  - definition and application of the operational risk mitigation measures;
  - system of physical controls;
  - Business Continuity Plan (BCP) and
  - Disaster Recovery Plan (DRP).
- 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 well as 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.

### 3.2.6. 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.

### 3.2.7. Investment Risk

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

### 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 Division for Prevention and Management of Risky Placements.
- The Risk Management Division consists of the Risk Management Systems and Methodologies Development Department, Risk Controlling Department and Market and Operational Risk Management Department.
- Credit Risk Analysis Division consists of the Large Corporate Clients, Department for Credit Risk Analysis of Small and Medium Enterprises and the Department for Credit Risk Analysis of Retail and Micro Clients.
- Division for Prevention and Management of Risky Placements consists of the Risk Loan Monitoring and Prevention Department, Loan Restructuring and Rehabilitation Department, Work Our Department for Legal Persons, Department for Management of Risky Placements of Retail Clients and Entrepreneurs, Department for Management over Acquired Assets, Department for Control of Risky Placements Portfolio Quality and Reporting.

### 3.4. Scope and features of the risk reporting system, as well as the manner of risk measurement

- Risk Management Function identifies all the phases of risk management process, among others the phases of risk measurement and reporting on risks to which the Bank is exposed to in its operations. Additionally, it is responsible for development of internal models and risk measurement methodologies, as well for reporting to the Bank's competent management bodies.
- The Bank has also established an adequate information system which implies full information of persons involved in the management of all individual risks and appropriate reporting of the Bank's management.
- More detailed information on risk reporting process are defined under point 3.7, while the detailed information on measurement of each individual risk type are given under point 3.2.

### 3.5. Adequacy of the Bank's established risk management system

- The Bank established an adequate risk management system in accordance with its risk profile, risk appetite and tolerance to risks, in line with its Business Policy and Strategy.
- During 2017 there were no limit breaches, which indicated adequacy of the established risk management system and its alignment with the Bank's risk profile, Business policy and Strategy.

### 3.6. Description of the correlation between the Bank's risk profile and its business strategy

- The Bank established Internal Capital Adequacy Assessment Process (ICAAP) in accordance with its risk appetite, risk tolerance and adopted risk profile and uses the results of this process for determination of strategy for maintenance of required level of capital. Propensity to risks shall imply the Bank's intention to assume risks in order to accomplish its strategies and policies, while the risk tolerance represents maximum acceptable level of risks for the Bank.
- The Bank defines its propensity to risks as low, medium or high, while considering the Bank's position in the banking market.
- The Bank defines the risk tolerance as maximum acceptable level of risks which it is ready to assume, while ensuring that its risk profile is within the defined propensity to risks. The Bank's key performance indicators are presented in the table below:

Bank's key performance indicators	Realized values (December 31, 2017)
Capital Adequacy Ratio	27,89%
Tier 1 Capital Adequacy Ratio	27,89%



Common Equity Tier 1 Capital Adequacy Ratio	27,68%
Liquidity Coverage Ratio	436%
Exposure to a single person or a group of related persons	13,41
Exposure to a person related to a bank	0,82
Total exposure to persons related to a bank	1,09
Sum of large exposures	34,97
Sum of investments in non-financial sector persons and fixed assets of the Bank	14,96%
Foreign Exchange risk ratio	4,40%

### 3.7. Description of the manner ensuring that the Bank's managing bodies are informed about risks

- The Bank establishes a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank to provide timely, accurate and sufficiently detailed information needed for making business decisions and efficient risk management, i.e. safe and stable operations.

#### Reporting system

	Monthly reporting	Quarterly reporting	Annual reporting	Ad-hoc reporting
Board of Directors		●	●	●
Executive Board	●	●	●	●
Audit Committee	●	●	●	●
ALCO	●	●	●	●
NBS	●	●	●	●
Bank's shareholders	●	●	●	●

## 4. BANK'S CAPITAL AND CAPITAL REQUIREMENTS

### 4.1. Bank's capital

Quantitative data on the Bank's capital include:

- amount of Tier 1 and Tier 2 capital;
- overview of individual elements of capital;
- deductible items;
- amount of total capital.

Data on main features of financial instruments included in calculation of the Bank's capital is given in Annex 2 PI-FIKAP.

Capital structure

RSD 000

Description	31.12.2017.
<b>TIER 1 CAPITAL</b>	<b>51.130.662</b>
<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>50.757.152</b>
Paid-up amount of CET1 instruments	16.817.956
Share premium with CET1 Capital instruments	22.843.084
Reserves from profit, other reserves and reserves for general banking risks	11.061.535
Revaluation reserves and other unrealized gains/losses	<b>4.026.721</b>
Revaluation reserves and other unrealized gains	4.030.259
(-) Unrealized losses	(3.538)
Non-controlling interests (minority interest) given recognition in CET1 Capital	

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<b>(-) Adjustments to CET1 due to prudential filters, except for unrealized losses on AFS securities</b>	<b>(3.992.144)</b>
(-) Loss (Previous years losses + Current period loss)	
(-) Other intangible assets before reduction for deferred tax liabilities	(460.263)
(-) Deferred tax assets that rely on future profitability, except for those that arise from temporary differences, net of associated deferred tax liabilities	(857.096)
(-) Excess of deduction from Additional Tier 1 items over Additional Tier 1 Capital	
(-) Amount of required reserve for estimated losses under balance sheet assets and off-balance sheet items deducted from CET1 Capital	(2.674.785)
<b>ADDITIONAL TIER 1 CAPITAL</b>	<b>373.510</b>
Paid-up amount of AT1 instruments	373.510
(-) Excess of deduction from Tier 2 items over Tier 2 Capital (deductible item from AT1 capital)	
<b>TIER 2 CAPITAL</b>	
Capital instruments and subordinated loans eligible as T2 Capital and share premium	
Of which: paid-up preference cumulative shares and hybrid capital instruments eligible for inclusion in T2 Capital until 30/06/2017 and included by the bank in T2 Capital until 31/12/2022 in accordance with transitional provisions of the Decision on Capital Adequacy of Banks	
Note: Capital instruments no longer eligible for inclusion in T2 Capital	
<b>REGULATORY CAPITAL</b>	<b>51.130.662</b>

### 4.2. Capital requirements and capital adequacy

- The Bank calculates the capital adequacy ratios (CET1, T1 and T2) and capital requirements in accordance with the regulations of the National Bank of Serbia by using the standardized approach for risk weighted exposures for:
  - credit, counterparty and dilution risks and free deliveries risk;
  - settlement/delivery risk (except for free deliveries);
  - market risks;
  - operational risk;
  - credit valuation adjustment risk;
  - risk exposure amount related to exposure limit excesses in the trading book.
- Regulatory prescribed minimum capital adequacy ratio is 8% plus combined capital buffer requirement which consists of capital conservation buffer (2,5%), systemically important bank buffer (2%) and systemic risk buffer (1,9%) – while at the end of year 2017 the Bank didn't calculate countercyclical capital buffer.
  - The Bank calculates three capital adequacy ratios:
    - CAR of total Bank's capital (min 8% + combined capital buffer requirement 6,4pp)
    - CAR of Tier 1 Bank's capital (min 6% + combined capital buffer requirement 6,4pp)
    - CAR of Common Equity Tier 1 Bank's capital (min 4,5% + combined capital buffer requirement 6,4pp)

Capital requirements	31.12.2017.
<b>CAPITAL</b>	<b>51.130.662</b>
Tier 1 capital	51.130.662
Common Equity Tier 1 Capital	50.757.152
Additional Tier 1 Capital	373.510
<b>Credit, counterparty and dilution risks and free deliveries risk</b>	<b>11.752.242</b>
Central governments and central banks exposures	234.358
Territorial autonomies and local government units exposures	48.372
Public administrative bodies exposures	-
Multilateral development banks exposures	-
Banks exposures	259.839
Companies exposures	3.967.716
Retail exposures	4.454.434
Secured by mortgages on immovable property exposures	600.130
Exposures in default exposures	602.567
Equity exposures	750.267

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Other items	834.560
<b>Market risks</b>	<b>380.945</b>
Capital requirement for position risk for debt securities	67.423
Capital requirement for position risk for equity	133.646
Capital requirement for foreign exchange risk	179.876
Capital requirement for commodities risk	-
<b>Operational risk</b>	<b>2.534.459</b>
Operational risk exposure	2.534.459
<b>Total capital requirements</b>	<b>14.667.646</b>
<b>CET1 capital adequacy ratio (minimum 4,5%+ combined capital buffer requirement 6,4pp)</b>	<b>27,68%</b>
<b>T1 capital adequacy ratio (minimum 6%+ combined capital buffer requirement 6,4pp)</b>	<b>27,89%</b>
<b>Capital adequacy ratio (minimum 8%+ combined capital buffer requirement 6,4pp)</b>	<b>27,89%</b>

- As of December 31, 2017 the Bank doesn't have capital requirements for settlement/delivery risk (except for free deliveries), for credit valuation adjustment risk, nor for exposure limit excesses in the trading book.
- Overview of capital requirements is given in Annex 4 – Data on Total Capital Requirements and Capital Adequacy Ratio (PI-AKB).

Structure of calculation of capital requirement for operational risk

RSD 000

Business line	Exposure indicator			Capital requirement rate	Capital requirement
	2014	2015	2016		
1. Corporate financing	5.666	5.440	3.773	18%	2.534.459
2. Trade and sales	(1.864.071)	(375.418)	923.107	18%	
3. Retail broker-dealer operations	5.722	6.200	3.312	12%	
4. Corporate banking operations	11.356.789	5.499.985	5.378.476	15%	
5. Retail banking operations	6.834.876	11.606.405	10.172.450	12%	
6. Payment transactions	1.837.468	1.868.917	2.017.202	18%	
7. Agency services	39.081	47.716	41.711	15%	
8. Property management	200.436	177.245	- 232.992	12%	

### 4.3. 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 significant 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 monitors 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 to clearly determine such level of capital that suffices for coverage of all risks to which the Bank is or may be exposed in its operation. 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** – standardized approach with the application of stress testing;
  - **Market risk (Foreign exchange risk and position risk on trading book positions)** – VaR methodology with application of stress testing as well;
  - **Interest rate risk in banking book** – methodology based on sensitivity of net interest income and change in factors;
  - **Liquidity risk** – testing "hypothetical" level of liquidity crisis and the calculation of the amount of missing funds;
  - **Concentration risk** – use of own approach based on HHI with the application of stress testing;
  - **Residual risk** – stress testing of deteriorating efficiency of applied credit risk mitigation techniques;
  - **Foreign currency induced credit 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;
  - **Investment risk** – capital reserve to the level of 2% of the available capital;
  - **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 reserves for estimated losses, which represent a deductible item from capital.
- Pursuant to the changes in regulations of the National Bank of Serbia, in 2017 the Bank adjusted the method of classification of clients to whom it transfers the receivables or approves the loan for indirect or direct repayment of a risky placement, as well as the method of calculation of the required reserves for estimated losses which is a deductible capital item, in accordance with the reduced percentage of NPLs in non-financial and non-governmental sector compared to the situation as of June 30, 2016.

**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).

**Materially significant past due receivables** represent materially significant amount which is an amount higher than 1% of a single account receivable of the bank, but not lower than 1,000 dinars in case of a natural person borrower or 10,000 dinars in case of a legal person borrower.

**Exposures in default – past due receivables** – a default shall be considered to have occurred with regard to a particular obligor when either of the following has taken place: the obligor is past due more than 90 days on any material obligation to the Bank and the Bank considers – based on financial condition assessment or credit worthiness of the borrower – that the obligor is unlikely to pay its credit obligations in full to the Bank without taking into consideration the possibility of realising credit protection instruments. Irrelevant if the obligor settles its obligations without delay or not, the Bank considers that the obligor is unlikely to pay its credit obligations in full to the Bank without taking into consideration the possibility of realising credit protection instruments and it assessed impairment for such receivable at individual or collective level, except for receivables in the group for which the amount of impairment can't be identified at individual level.

**Watch list receivables** – receivables from obligors with 31 to 90 days past due.

**Impaired exposures for accounting purposes** represent probability of weighted credit losses assessment (i.e. present value of all cash shortfalls) during the expected lifetime of the financial instrument, while the cash shortfall itself represents the difference between contractual cash flows that belong to the Bank and cash flows which the Bank expects to receive.

**Specific credit risk adjustments** include the part of credit risk adjustment which refers to the following losses:

- losses on instruments measured at fair value that represent impairment based on credit risk in accordance with IFRS / IAS,
- losses incurred as a result of current or past events that affect individually significant exposure or exposures that are not individually significant and are assessed on an individual or group basis,
- losses for which historical experience and currently available data indicate that the loss was incurred, but the Bank is not yet aware of which individual exposure has suffered such losses.

**Specific credit risk adjustments and reversals presented directly in the income statement** – such reversals are booked on income side of profit and loss account.

**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.
- Impairment assessment procedure is performed individually, when there are objective proofs on loan impairment, for each individually significant loan with the status indicating that liabilities are not being settled – default (risky placement, risk subcategories 4D, 4DD and 5 according to the internal rating system), and at the group level for loans for which no objective evidence of impairment has been identified and that have not been determined as individually significant in default, for individually significant loans which are not in default status, for loans which, after calculation on the individual level, indicated 0 equal provision, as well for fees and other receivables that bear no elements that would require their reduction on the present value. The impairment amount is assessed individually as difference between book values and current values of the expected future cash flows, established by discounting the expected loan resulted inflows, through applying the last stipulated effective interest rates of the specific loans. In terms of interventions by RSD guarantees and other forms of sureties, current value is established by discounting the expected inflow upon applying the average annual penalty interest rate. In the event of interventions by guarantees and other forms of sureties indexed in foreign currency, current value is established by discounting of expected inflows through applying the effective interest rate valid for balance sheet receivables with similar characteristics.
- Impairment on the group level is assessed for each group individually, bearing in mind their similar characteristics with respect to the credit risk, to the amount of per cent of migration of a proper group into non performing status – default, by types of clients or products.
- 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 on 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. Establishment of potential loss is performed by the Bank for unused undertaken liabilities, which have no stipulation of unconditional and unannounced possibility of cancelation of the stipulated obligation. When calculating the reserves for unused undertaken liabilities, the Bank is using the conversion factor (*credit conversion factor* – CCF) which corrects the accounting value of the unused undertaken liabilities.
- When assessing provisions for potential losses by off balance sheet items, funds acquired through realization of the collateral are taken into account, if fully certain that the outflow of funds arising from potential obligation will be settled by enforcement of the collateral.
- The assessment of provisions on the group basis is performed based on the migration of risk categories, taking due care about all elements of the internal rating system, in the same manner as in the procedure described for the 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.
- In 2017, the Bank calculated the allowances for impairment losses and provisions for losses on off-balance sheet items in accordance with IAS 39 and IAS 37, which were effective until December 31, 2017. At the beginning of 2018, the Bank performed the harmonization of internal acts (methodologies and procedures) in accordance with the amendments of the regulations of the National Bank of Serbia in the area of accounting and financial reporting, introducing the obligation to apply the International Financial Reporting Standard 9 in banks (IFRS 9). Aforementioned amendments stipulated banks' obligation to carry out impairment calculation in accordance with the IFRS 9 starting from January 1, 2018. In accordance with IFRS 9, the Bank has adopted a new Methodology for assessment of impairment of balance sheet assets and probable loss on off-balance sheet items, which is effective from January 1, 2018.



**IFRS 9**

- In accordance with IFRS 9, the methodology for impairment calculation significantly changes and replaces IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.
- The Bank defined the criteria for classifying financial instruments into levels 1, 2 and 3, depending on the degree of increase in credit risk from the moment of initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments that are valued at fair value through other comprehensive income.
- The total estimated effect of the first application of IFRS 9 amounts to RSD 1,16 billion, of which RSD 0,2 billion relates to impairment of exposure to the Republic of Serbia and the National Bank of Serbia, mostly on the basis of a portfolio of securities of the value classified as available for sale in accordance with IAS 39. The effect of the first time adoption of IFRS 9 as of 1 January 2018 is recorded through the retained earnings account. The Bank will recognize differences in the carrying amounts of financial assets that arise from the application of IFRS 9 within equity as at 1 January 2018.

## 1) Overview of Exposures to Credit Risk per Asset Classes

RSD 000

Credit risk exposures	31.12.2017.	
	Exposure*	Average exposure**
Central governments and central banks	277.169.268	291.816.779
Territorial autonomies and local government units	5.628.661	5.834.145
Public administrative bodies	-	-
Multilateral development banks	-	262
Banks	17.673.316	21.027.640
Companies	66.185.152	65.626.518
Retail	90.862.607	82.981.507
Secured by mortgages on immovable property	21.220.085	35.958.968
Exposures in default	44.115.980	25.171.753
Equity	7.098.038	7.138.898
Other items	299.069.598	297.932.123
<b>Total</b>	<b>829.022.705</b>	<b>833.488.594</b>

\* Note: gross exposure reduced by allowances for impairments (for balance sheet positions) and provisions for estimated losses (for off-balance sheet items) and for required reserves for estimated losses.

\*\* The average exposure is calculated using the data as of June 30, 2017 when the Basel III regulation became effective.

## 2) Geographical distribution of all exposures, broken down by materially significant areas, by exposure classes, as well as impaired exposures and exposures in default presented separately by significant geographic area

000 RSD

Credit risk exposures	31.12.2017.		
	Gross exposure	Amount of impaired exposures including exposures in default	Amount of specific credit risk adjustments of impaired exposures including exposures in default
<b>Central governments and central banks</b>	<b>277.292.939</b>	<b>3.053.314</b>	<b>31</b>
Republic of Serbia	274.238.325	-	-
Bosnia and Herzegovina	3.053.064	3.053.064	31
Other	1.550	250	-
<b>Territorial autonomies and local government units</b>	<b>5.629.446</b>	<b>2.921.705</b>	<b>225</b>
Republic of Serbia	5.629.446	2.921.705	225
<b>Banks</b>	<b>17.676.268</b>	<b>1.677.098</b>	<b>33</b>
Republic of Serbia	9.004.072	818.151	24
Germany	5.343.495	-	-
Other	3.328.701	858.947	9
<b>Companies</b>	<b>67.168.496</b>	<b>66.363.727</b>	<b>406.729</b>
Montenegro	3.751.885	3.751.885	38

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Republic of Serbia	63.416.607	62.611.842	406.691
Other	4	-	-
<b>Retail</b>	<b>91.797.448</b>	<b>86.739.075</b>	<b>672.868</b>
Republic of Serbia	91.748.331	86.691.001	672.688
Other	49.117	48.074	180
<b>Secured by mortgages on immovable property</b>	<b>21.267.481</b>	<b>21.267.481</b>	<b>33.700</b>
Republic of Serbia	21.267.481	21.267.481	33.700
<b>Exposures in default</b>	<b>63.769.176</b>	<b>28.201.221</b>	<b>18.312.826</b>
Republic of Serbia	63.290.920	27.786.209	17.897.814
Other	478.256	415.012	415.012
<b>Equity</b>	<b>10.472.497</b>	<b>5.879.657</b>	<b>3.373.760</b>
Austria	3.279.824	-	-
Bosnia and Herzegovina	2.974.615	2.974.615	1.599.909
Montenegro	2.366.273	2.366.273	1.269.120
USA	1.026.613	-	-
Republic of Serbia	743.109	-	-
Other	82.063	538.769	504.731
<b>Other items</b>	<b>305.494.200</b>	<b>15.883.959</b>	<b>6.070.291</b>
Republic of Serbia	305.492.749	15.882.509	6.070.284
Other	1.451	1.451	7
<b>Total</b>	<b>860.567.951</b>	<b>231.987.237</b>	<b>28.870.463</b>

Note: Presented total gross exposure of balance sheet assets and off-balance sheet items broken down by materially significant geographical areas, as well as gross exposure of impaired including defaulted balance sheet assets and provisioned including defaulted off-balance sheet items

### 3) Impaired exposures and exposures in default presented separately by exposure classes and sectors

000 RSD

Credit risk exposures	31.12.2017.		
	Gross exposure	Amount of impaired exposures including exposures in default	Amount of specific credit risk adjustments of impaired exposures including exposures in default
<b>Central governments and central banks</b>	<b>277.292.939</b>	<b>3.053.314</b>	<b>31</b>
Finance and insurance sector	58.290.665	-	-
General government sector	215.947.460	-	-
Foreign entities sector	3.054.614	3.053.314	31
Other customers sector	200	-	-
<b>Territorial autonomies and local government units</b>	<b>5.629.446</b>	<b>2.921.705</b>	<b>225</b>
General government sector	4.963.569	2.921.705	225
Foreign entities sector	665.877	-	-
<b>Banks</b>	<b>17.676.268</b>	<b>1.677.098</b>	<b>33</b>
Finance and insurance sector	9.004.070	818.149	24
Company sector	1	1	-
Foreign entities sector	8.672.196	858.947	9
Other customers sector	1	1	-
<b>Companies</b>	<b>67.168.496</b>	<b>66.363.727</b>	<b>406.729</b>
Finance and insurance sector	606	606	-
Public non-financial sector	11.296.211	11.145.095	94.595
Company sector	51.839.745	51.217.175	307.908
Entrepreneurs sector	1	1	-
General government sector	238.368	207.289	4.042
Retail sector	5.081	5.081	5
Foreign entities sector	3.751.889	3.751.885	38
Other customers sector	36.595	36.595	141
<b>Retail</b>	<b>91.797.448</b>	<b>86.739.075</b>	<b>672.868</b>
Finance and insurance sector	5.872	948	5
Public non-financial sector	111.653	92.017	565
Company sector	20.317.606	19.717.743	152.510
Entrepreneurs sector	3.717.187	3.710.263	71.494
General government sector	62.396	62.377	96
Retail sector	67.525.206	63.099.687	447.935
Foreign entities sector	52.726	51.384	180

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Other customers sector	4.802	4.656	83
<b>Secured by mortgages on immovable property</b>	<b>21.267.481</b>	<b>21.267.481</b>	<b>33.700</b>
Company sector	2.085.635	2.085.635	6.361
Entrepreneurs sector	174.201	174.201	226
Retail sector	19.000.251	19.000.251	27.075
Other customers sector	7.394	7.394	38
<b>Exposures in default</b>	<b>63.769.176</b>	<b>28.201.221</b>	<b>18.312.826</b>
Finance and insurance sector	108.859	3.396	3.392
Public non-financial sector	5.195.626	2.291.124	1.151.549
Company sector	27.630.942	16.222.243	9.834.781
Entrepreneurs sector	432.982	124.214	85.595
General government sector	1.069.714	139.626	135.174
Retail sector	4.391.639	2.813.870	1.475.074
Foreign entities sector	478.496	415.062	415.062
Other customers sector	24.460.918	6.191.686	5.212.199
<b>Equity</b>	<b>10.472.497</b>	<b>5.879.657</b>	<b>3.373.760</b>
Finance and insurance sector	342.522	60.276	28.828
Public non-financial sector	31.073	31.073	28.483
Company sector	3.564	3.084	3.084
General government sector	800	800	800
Foreign entities sector	9.729.388	5.419.274	2.947.415
Other customers sector	365.150	365.150	365.150
<b>Other items</b>	<b>305.494.200</b>	<b>15.883.959</b>	<b>6.070.291</b>
Finance and insurance sector	7.591.969	1.807	369
Other – which can't be classified into mentioned sectors	297.191.664	15.201.498	6.046.671
Public non-financial sector	3	1	-
Company sector	289.722	289.122	1.639
Entrepreneurs sector	24	24	5
General government sector	20.633	9.677	591
Retail sector	335.595	327.959	20.674
Foreign entities sector	1.451	1.451	7
Other customers sector	63.139	52.420	335
<b>Total</b>	<b>860.567.951</b>	<b>231.987.237</b>	<b>28.870.463</b>

\*Note: Presented gross exposure of impaired including defaulted balance sheet assets and provisioned including defaulted off-balance sheet items

#### 4) The residual maturity breakdown of all exposures, by exposure classes

RSD 000

Credit risk exposures	31.12.2017.
Residual maturity	Gross exposure
<b>Central governments and central banks</b>	<b>277.292.939</b>
Up to three months	91.988.284
From three months to 6 months	19.079.514
From 6 months to 1 year	19.570.536
Over 1 year	146.654.605
<b>Territorial autonomies and local government units</b>	<b>5.629.446</b>
Up to three months	677.473
From 6 months to 1 year	44.583
Over 1 year	4.907.390
<b>Banks</b>	<b>17.676.268</b>
Up to three months	16.617.500
From three months to 6 months	292.826
From 6 months to 1 year	629.871
Over 1 year	136.071
<b>Companies</b>	<b>67.168.496</b>
Up to three months	6.595.102
From three months to 6 months	4.334.357
From 6 months to 1 year	11.638.850
Over 1 year	44.600.187
<b>Retail</b>	<b>91.797.448</b>
Up to three months	9.726.681
From three months to 6 months	4.209.349
From 6 months to 1 year	12.624.375
Over 1 year	65.237.043
<b>Secured by mortgages on immovable property</b>	<b>21.267.481</b>

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Up to three months	41.440
From three months to 6 months	319.510
From 6 months to 1 year	178.421
Over 1 year	20.728.110
<b>Exposures in default</b>	<b>63.769.176</b>
Up to three months	47.152.984
From three months to 6 months	118.579
From 6 months to 1 year	4.332.407
Over 1 year	12.165.206
<b>Equity</b>	<b>10.472.498</b>
Over 1 year	10.472.498
<b>Other items</b>	<b>305.494.199</b>
Up to three months	304.868.045
From three months to 6 months	95.333
From 6 months to 1 year	102.509
Over 1 year	428.312
<b>Total</b>	<b>860.567.951</b>

### 5) Presentation of changes in specific credit risk adjustments for impaired exposures

RSD 000

	Loans to banks	Loans to customers	Investment securities	Investments in dependent companies	Other assets	Off balance exposure	Total
Balance as of 01.01.2017.	309.874	29.645.005	165.879	2.869.029	2.532.688	430.941	35.953.416
Increase	-	10.592.617	29.813	-	484.560	276.066	11.383.056
Decrease	(60.561)	(10.123.228)	(27.211)	-	(129.416)	(321.929)	(10.662.345)
FX differences	(46.755)	(772.235)	(3.523)	-	(10.726)	-	(833.239)
Write-offs	-	(12.089.069)	(164.955)	-	(19.098)	-	(12.273.122)
Other changes	-	781.509	-	-	(401.145)	(260.686)	119.678
<b>Balance 31.12.2017.</b>	<b>202.558</b>	<b>18.034.599</b>	<b>3</b>	<b>2.869.029</b>	<b>2.456.863</b>	<b>124.392</b>	<b>23.687.444</b>

\*Note: Allowances for fixed assets, intangible assets and inventories are not included in the allowances and provisions changes.

- In 2017, the Bank increased the net expenses of the allowances for impairments and provisions for losses in the total amount of RSD 720.711 thousand, mostly as a result of new risky placements, lower estimates of collateral values, an increase in the impairment percentage for restructured receivables, and new estimates of funds acquired through collection. The reversal of allowances for impairments on balance sheet assets and provisions for losses on off-balance sheet items (specific credit risk adjustments), recorded in the income statement, amounts to RSD 10.662.345 thousand. Of the other changes in the accounts of allowances for impairments and provisions for losses, the amount of RSD 12.273.122 thousand relates to the permanent write-off made by the Bank in 2017 from the transfer from balance sheet to off-balance sheet records based on the NBS Decision on accounting write-off of balance sheet assets.

### 6) Exposure according to risk categories and client type as of 31.12.2017

RSD 000

Classification	Corporate clients	Banks	Retail clients	Total
A	51.526.778	20.559.981	81.445.154	153.531.913
B	18.446.631	1.747.832	7.557.455	27.751.918
V	19.626.851	2.376.066	1.398.950	23.401.867
G	4.427.240	-	965.605	5.392.845
D	19.287.381	1.721.983	3.630.225	24.639.589
<b>Total</b>	<b>113.314.881</b>	<b>26.405.862</b>	<b>94.997.389</b>	<b>234.718.132</b>

\* Note: total exposure to credit risk by risk category and client type is shown in gross amount before the application of credit risk mitigation techniques.

### 7) Overview of credit loss reserves and required reserves by client type as of 31.12.2017

RSD 000

Type of Client	Credit Loss Reserves	Required Reserves for Estimated Losses
Corporate clients	23.380.480	2.108.718
Banks	2.113.190	9.489
Retail clients	3.856.348	556.579
<b>Total</b>	<b>29.350.018</b>	<b>2.674.786</b>

- In accordance with the NBS Decision on Classification, the Bank implemented provisions that allow relaxation of calculated level of the required reserves for estimated losses, based on the proactive management and decrease in level on NPLs. As of December 31, 2017 coefficient K amounted to 0,73, while the required reserve for estimated losses amounted to RSD 9.906.611 thousand before the reduction.

#### Use of credit ratings

- In 2017, the Bank used long-term credit ratings of the external credit rating agency Moody's to determine the class of exposure to the central governments and central banks.
- For exposures in the form of financial instrument from the banking book, the Bank does not use credit ratings of the issuer or the specific issues of such instruments. For the financial instrument issued by the Republic of Serbia, the Bank is applying the preferential risk weight of 0% in accordance with the Decision on Capital Adequacy of Banks.

Credit rating assignment to credit quality steps

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

#### 8) Exposures to the central governments and central banks per credit quality steps and credit risk weights

Credit quality step	Credit risk weight	Exposure amount before application of credit protection instruments (net exposure)	Exposure amount after application of credit protection instruments (E*)
Central governments and central banks		277.169.184	278.515.771
1	0%	274.239.625	275.586.212
5	100%	2.929.559	2.929.559

Note: in column Exposure amount before application of credit protection instruments gross exposure is reduced by specific credit risk adjustments.

#### Credit Risk Mitigation Techniques

##### Valuation of credit protection instruments and their managing

- The Bank has regulated valuation of credit protection instruments and their managing by its internal documents.
- 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:
  - funded credit protection instruments;
  - unfunded credit protection instruments.
- Among the funded credit protection instruments, the Bank uses the financial instruments by applying the complex method in accordance with the regulations of the National Bank of Serbia. As to funded credit protection 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 central governments and central banks, and shares;
  - Gold.
- As a form of unfunded credit protection, the Bank uses guarantees, other forms of sureties, counter-guarantees, etc.

##### The main types of providers of credit protection deriving from a guarantee or credit derivative as well as their credit quality

- 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.
- Assessment of credit quality providers of credit protection deriving from guarantees or credit derivatives is carried out in accordance with the Bank's procedures for managing credit risk and procedures used in the procedure for determining creditworthiness. At the end of 2017, the Bank had only government guarantees as eligible unfunded credit protection instruments.

**Data about market or credit risk concentration within the applicable credit risk 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.
- All eligible unfunded credit protection instruments were the guarantees of the Government of the Republic of Serbia at the end of year 2017.

9) Exposures secured by credit protection instruments per classes of assets

RSD 000

Credit risk exposures	Amount of exposures secured by funded credit protection instruments	Amount of exposures secured by other eligible credit protection instruments
Central governments and central banks	-	-
Territorial autonomies and local government units	-	-
Banks	-	-
Companies	150.979	709.932
Retail	1.739.431	-
Secured by mortgages on immovable property	-	-
Exposures in default	195.258	636.655
Equity	-	-
Other items	12.245	-
<b>Total</b>	<b>2.097.913</b>	<b>1.346.587</b>

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

**5.2. Counterparty Credit Risk**

**Counterparty Credit Risk**

- Bank performs transactions in the trading book and banking book which fall under the counterparty credit 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 approaches prescribed in the Decision on Capital Adequacy of Banks by National bank of Serbia:
  - Mark-to-Market method for financial derivatives in which the Bank shall determine the exposure amount as the sum of current exposure under a contract whose value is positive, which represents its current market value (for contracts whose value is negative, the current exposure is equal to zero) and potential future credit exposure (PFE) for the period remaining until the contractual obligations' due date, calculated by multiplying the notional principal amount of each individual contract as at the date of calculation by the appropriate conversion factor (*add-on*);
  - 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.
- In the internal capital adequacy assessment process (ICAAP), the Bank makes a calculation of available internal capital and allocates it to individual material significant risks for which it sets out appropriate internal capital requirements. Internal capital requirement for the counterparty credit risk – if the Bank identifies it as materially significant in the process for assessing the materially significant risks – is allocated in the composition of the unique internal capital for the credit risk.
- Credit limits for exposures to a counterparty credit risk are defined within a comprehensive process of defining limits to



other contracting parties with which the Bank performs business transactions that are subject to this type of risk (financial and credit derivatives, repo and reverse repo transactions, securities or commodities lending or borrowing transactions, margin lending transactions, long settlement transactions).

Exposure to counterparty credit risk – repo transaction	RSD 000
Transaction type	Exposure value
Repo transaction	15.005.340

Exposure to counterparty credit risk – credit derivatives	RSD 000			
Transaction type	Fair value	Current exposure	Hypothetical value	Potential future exposure (PFE)
Swap	(7.845)	-	592.364	5.924

### 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 uses the following liquidity risk measurement techniques: GAP analysis, Ratio analysis, liquidity indicators monitoring, stress testing.
- 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 is limited to 1 on daily basis, the narrow liquidity ratio as well as the liquidity coverage ratio which it complies with the regulatory defined limits. The Bank has aligned its operations with the regulatory prescribed liquidity coverage ratio, starting from June 30, 2017
  - 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 regularly conducts stress testing and simulation of different assumptions that influence the impact, on the Bank's exposure to liquidity risk. Simulating significant positive and negative changes in the Bank's exposure to the liquidity risk arising from internal (specific) and external (systemic) factors tests the liquidity of the Bank, which deviate from the regular business conditions. Stress testing is carried out in order to examine possible inability to cover the Bank's obligations with available liquidity reserves and alternative sources of funds.
- The Bank tests the Liquidity Contingency Plan (LCP) 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,
  - Optionality 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 conducts stress testing of the interest rate risk, which is used to assess the effect of change in key factors to interest rate risk exposure of the Bank. When modelling the scenario, in addition to change of the interest rate, the influence of temporarily withdrawal of deposits and early repayment of loans is particularly considered, since the Bank is assessing on the basis of historical movements and expert opinions. The Bank carried out the assessment of movements in transaction deposits, on demand deposits and retail savings by applying relevant statistical model from the domain of the analysis of time series.
- Within the framework of the interest rate risk assessment in the banking book, the Bank assesses the impact that standardized interest rate shock could have (parallel positive and negative shift of interest rates on the reference yield curve by 200 basis points). The Bank estimates the impact that could have standardized interest rate shock for each significant currency individually and for all other currencies cumulatively.
- 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 parities 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 (position risk).
- In the structure of currency exposure, dominant is the exposure to currency EUR, then to USD, and also exposure to currency CHF. Internal factors of exposure to FX risk stem from the currency structure of facilities and deposits: loans are mostly placed in dinars and indexed with a currency clause (EUR and CHF), while investments in securities are indexed in EUR and USD, while the deposits are mostly denominated in EUR. During 2017 exposure to FX risk ranged within the defined limits and the average FX risk ratio amounted to 5,18%.
- The Bank regularly implements stress testing of foreign exchange risk, which assesses the impact of the change of key factors on the exposure to foreign exchange risk, capital and financial result of the Bank, as well as investment units and swap transactions.
- In the structure of exposure to position risk, dominant share belongs to the bonds of the Republic of Serbia that are traded with.
- The Bank is insignificantly exposed to the position risk, which is also demonstrated by the share of the trading book in total operations of the Bank, which amounts to 1,5%.
- The Bank conducts stress testing in order to measure and assess the impact of the change of key factors on the risks deriving from the Bank's trading book. The stress test of a trading book involves measuring the Bank's exposure to market risks in the trading book and is implemented in relation to events and changes that can be expected in real terms, or based on the projection and assessment of expected events and events with realistic probability, as well as events whose probability of occurrence is lower but the effects are significant.
- 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.
- In accordance with IFRS 9 standard, starting from January 1, 2018 equity investments, except for equity investments in subsidiaries, are valued at fair value through other comprehensive income, which implies the abolition of the current impairment in the balance sheet, i.e. the reduction in the gross value of the equity investment to their net value. Equity investments in subsidiaries are still valued at purchase value.

Exposure per investment purpose as of 31.12.2017

RSD 000

Equity investments in banking book	Carrying value	Allowances	Fair value	Realized gain/loss	Unrealized gain	Unrealized loss
Subsidiary legal entities in the country	140.000	-	140.000	-	-	-
Subsidiary banks abroad	5.340.888	2.869.029	2.471.859	-	-	-
Banks and financial organizations	80.270	80.270	-	-	-	-
Companies and other legal entities	464.902	424.462	40.440	-	14.914	3.453
Foreign entities abroad	1.026.613	-	1.026.613	-	1.026.613	-
<b>Total</b>	<b>7.052.673</b>	<b>3.373.761</b>	<b>3.678.912</b>	-	<b>1.041.527</b>	<b>3.453</b>

Exposure value as of 31.12.2017

RSD 000

Exposure type	Carrying value	Fair value
<b>Holdings and investments in capital</b>		
quoted on stock exchange	1.117.962	1.060.651
not quoted on stock exchange	453.823	6.403
Subsidiary legal entities	5.480.888	2.611.859
<b>Total</b>	<b>7.052.673</b>	<b>3.678.913</b>

\*Note: the exposure is presented as gross exposure in column Carrying value, while net exposure is presented in column Fair value

- In 2017, 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, in gross amount before reduction for tax effects by 15%.

## 6. LEVERAGE RATIO

- The Bank discloses the leverage ratio, which represents the ratio between the Bank's Tier 1 capital and total amount of exposures which are defined for leverage ratio calculation and is expressed as percentage.

No.	Description	Value
I	Leverage ratio	12,33%

## 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),
- Društvo za upravljanje investicionim fondom 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.

### 7.1. Overview of Differences between Consolidated Financial Statements

Company type	Company name	Consolidation for supervision		Consolidation according to IFRS	
		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	

### 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.

## 8. ANNEXES

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.

### 8.1. Annex 1 – Data on Bank Capital (PI-KAP) as of December 31, 2017

No	Item	Amount	DCA reference*
<b>Common Equity Tier 1: elements</b>			
<b>1</b>	<b>CET1 capital instruments and the related share premium accounts</b>	<b>39.661.040</b>	
1.1.	<i>of which: shares and other capital instruments which fulfil the requirements as laid out in Section 8 of the DCA</i>	16.817.956	Section 7, paragraph 1, item 1) and Section 8
1.2.	<i>of which: relevant share premium with the instruments referred to in item 1.1, i.e. the amount paid above par value of those instruments</i>	22.843.084	Section 7, paragraph 1, item 2)
2	Profit from preceding years free of any future liabilities, to be allocated to CET 1 capital according to the decision of the bank's assembly		Section 10, paragraph 1
3	Profit of the current year or profit from the preceding year which the bank's assembly still has not decided to allocate in CET 1 capital which fulfil the requirements as laid out in Section 10, paras 2 and 3 on inclusion into CET 1 capital		Section 10, paras 2 and 3
4	Revaluation reserves and other unrealised losses	4.030.259	Section 7, paragraph 1, item 4)
5	Reserves from profit and other bank reserves, except for reserves for general banking risks	11.061.535	Section 7, paragraph 1, item 5)
6	Reserves for general banking risks		Section 7, paragraph 1, paragraph 6)
7	Non-controlling participations (minority interests) allowed in CET1**		
<b>8</b>	<b>Common Equity Tier 1 capital before regulatory adjustments and deductibles</b> (sum of rows from 1 to 7)	<b>54.752.834</b>	
<b>Common Equity Tier 1 capital: regulatory adjustments and deductibles</b>			
9	Additional value adjustments (-)		Section 12, paragraph 5
10	Intangible assets, including goodwill (net of deferred tax liabilities) (-)	-460.263	Section 13, paragraph 1, item 2)
11	Deferred tax assets that rely on future profitability of the bank, excluding those arising from temporary differences (net of related deferred tax liability where the conditions referred to in Section 14, paragraph 1 of the DCA are met)	-857.096	Section 13, paragraph 1, item 3)
12	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value, including projected cash flows		Section 12, paragraph 1, item 1)
13	IRB Approach: Negative amount of difference resulting from the calculation in accordance with Section 134 of the DCA (-)		Section 13, paragraph 1, item 4)
14	Any increase in equity that results from securitisation exposures (-)		Section 11
15	Gains or losses on bank's liabilities valued at fair value resulting from changes in own credit standing		Section 12, paragraph 1, item 2)
16	Defined benefit pension fund assets on the balance sheet of the bank (-)		Section 13, paragraph 1, item 5)
17	Direct, indirect and synthetic holdings by a bank of own Common Equity Tier 1 instruments, including own CET 1 instruments that a bank is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation (-)		Section 13, paragraph 1, item 6)
18	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the bank, designed to inflate artificially the capital of the bank (-)		Section 13, paragraph 1, item 7)
19	Applicable amount of direct, indirect and synthetic holdings by the bank of the CET1 instruments of financial sector entities where the bank does not have a significant investment in those entities (-)		Section 13, paragraph 1, item 8)
20	Applicable amount of direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the bank has a significant investment in those entities (-)		Section 13, paragraph 1, item 9)
21	Exposure amount of the following items which qualify for a risk weight of 1.250%, where the bank deducts that exposure amount from the amount of CET1 items as an alternative to applying a risk weight of 1.250%		Section 13, paragraph 1, item 11)
21.1.	<i>of which: holdings in entities outside the financial sector in the amount of over 10% of capital of those entities, i.e. holdings that allow exerting a significant impact on managing of a legal entity or on the business policy of that legal entity (-)</i>		Section 13, paragraph 1, item 11), indent one
21.2.	<i>of which: securitisation positions (-)</i>		Section 13, paragraph 1, item 11), indent two
21.3.	<i>of which: free deliveries (-)</i>		Section 13, paragraph 1, item 11), indent three
22	Deferred tax assets that rely on the bank's future profitability arising from temporary differences (amount above 10% of bank's CET1 capital referred to in Section 21, paragraph 2, reduced by the amount of related tax liabilities where the requirements referred to in Section 14, paragraph 1 of the DCA are met (-)		Section 21, paragraph 1, item 1)
23	Sum of deferred tax assets and holdings of financial sector entities where the bank has a significant investment referred to in Section 21, paragraph 1 of the DCA in such entities, which		Section 21, paragraph 1

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	exceeds the threshold referred to in Section 21, paragraph 3 of the DCA (-)		
23.1.	<i>of which: Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the bank has a significant investment in those entities</i>		Section 21, paragraph 1, item 2)
23.2.	<i>of which: Deferred tax assets arising from temporary differences</i>		Section 21, paragraph 1, item 1)
24	Losses for the current and previous years, and unrealised losses (-)	-3.538	Section 13, paragraph 1, item 1)
25	Any tax charge relating to CET1 elements foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of CET1 elements insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (-)		Section 13, paragraph 1, item 12)
26	Amount of items required to be deducted from the bank's Additional Tier 1 items that exceeds Additional Tier 1 capital of the bank (-)		Section 13, paragraph 1, item 10)
27	Amount of required reserve for estimated losses on balance-sheet assets and off-balance sheet items of the bank	-2.674.785	Section 13, paragraph 1, item 13)
28	<b>Total regulatory adjustments and deductibles from CET1 capital</b> (sum of rows from 9 to 27)	-3.995.682	
29	<b>Common Equity Tier 1 capital</b> (difference between 8 and 28)	50.757.152	
<b>Additional Tier 1 capital: elements</b>			
30	Shares and other capital instruments which fulfil the requirements as laid out in Section 23 of the DCA and related share premium	373.510	Section 22, paragraph 1, items 1) and 2)
31	Capital instruments issued by subsidiaries, which are recognised as Additional Tier 1 capital**		
32	<b>Additional Tier 1 capital before deductibles</b> (30+31)	373.510	
<b>Additional Tier 1 capital: deductibles</b>			
33	Direct, indirect and synthetic holdings by a bank of own Additional Tier 1 instruments, including the instruments that a bank is obliged to purchase as a result of existing contractual obligations (-)		Section 26, paragraph 1, item 1)
34	Direct, indirect and synthetic holdings by a bank of the Additional Tier 1 instruments of financial sector entities with which the bank has reciprocal cross holdings, designed to inflate artificially the capital of the bank (-)		Section 26, paragraph 1, item 2)
35	Applicable amount of direct, indirect and synthetic holdings by a bank of the Additional Tier 1 instruments of financial sector entities where the bank does not have a significant investment in those entities (-)		Section 26, paragraph 1, item 3)
36	Direct, indirect and synthetic holdings by a bank of the Additional Tier 1 instruments of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for five working days or fewer (-)		Section 26, paragraph 1, item 4)
37	Amount of items required to be deducted from Tier 2 items that exceed the Tier 2 capital of the bank (-)		Section 26, paragraph 1, item 5)
38	<b>Total deductibles from Additional Tier 1 capital</b> (sum of rows from 33 to 37)		
39	<b>Additional Tier 1 capital</b> (difference between 32 and 38)	373.510	
40	<b>Tier 1 capital</b> (sum of rows 29 and 39)	51.130.662	
<b>Tier 2: elements</b>			
41	Shares and other Tier 2 capital instruments and subordinated liabilities which fulfil the requirements as laid out in Section 28 of the DCA and related share premium accounts related to instruments		Section 27, paragraph 1, items 1) and 2)
42	Capital instruments issued by subsidiaries, which are recognised as Tier 2 capital**		
43	Credit risk adjustments that meet the requirements for the inclusion in Tier 2 capital		Section 27, paragraph 1, items 3) and 4)
44	<b>Tier 2 capital before deductibles</b> (sum of rows from 41 to 43)		
<b>Tier 2 capital: deductibles</b>			
45	Direct, indirect and synthetic holdings by a bank of own Tier 2 instruments and subordinated liabilities, including instruments that the bank is obliged to purchase as a result of existing contractual obligations (-)		Section 30, paragraph 1, item 1)
46	Direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated liabilities of financial sector entities with which the bank has reciprocal cross holdings, designed to inflate artificially the capital of the bank (-)		Section 30, paragraph 1, item 2)
47	Applicable amount of direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated liabilities of financial sector entities where a bank does not have a significant investment in those entities (-)		Section 30, paragraph 1, item 3)
48	Direct, indirect and synthetic holdings by the bank of the Tier 2 instruments and subordinated liabilities of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for fewer than five working days (-)		Section 30, paragraph 1, item 4)
49	<b>Total deductibles from Tier 2 capital</b> (sum of rows from 45 to 48)		
50	<b>Tier 2 capital</b> (difference between 44 and 49)		
51	<b>Total capital</b> (sum of rows 40 and 50)	51.130.662	
52	<b>Total risk-weighted assets</b>	183.345.573	Section 3, paragraph 2
<b>Capital adequacy ratios and capital buffers</b>			
53	Common Equity Tier 1 capital ratio (%)	27,68%	Section 3, paragraph 1, item 1)



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54	Tier 1 capital ratio (%)	27,89%	Section 3, paragraph 1, item 2)
55	Total capital ratio (%)	27,89%	Section 3, paragraph 1, item 3)
56	Total requirements for capital buffers (%)***	6,40%	Section 433
57	Common Equity Tier 1 capital available for capital buffers coverage (%)****	19,68%	

\* DCA - Decision on Capital Adequacy of Banks

\*\* To be completed by the ultimate parent company, obliged to calculate the banking group's capital based on the data from the consolidated financial statements, in accordance with the decision on consolidated supervision of a banking group.

\*\*\* As a percentage of risk-weighted assets.

\*\*\*\* Calculated as Common Equity Tier 1 capital of the bank (expressed as percentage of risk-weighted assets), less Common Equity Tier 1 capital of the bank used to maintain the Common Equity Tier 1 capital ratio referred to in Section 3, paragraph 3, item 1) of the DCA, the Tier 1 capital ratio referred to in Section 3, paragraph 3, item 2) of the DCA and the total capital ratio referred to in Section 3, paragraph 3, item 3) of the DCA.

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

- **Reserves from profit** – This element of the CET1 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 and National bank of Serbia regulations. In accordance with the Decision on Capital Adequacy of Banks, the Bank is obliged to – after the adoption of the relevant decision by General Meeting of Bank's Shareholders – inform NBS at the latest 30 days before the day of inclusion of reserves from profit in the calculation of capital, accompanied with the relevant documentation;
- **Losses from previous years and current period loss** – loss is deductible item from the Bank's capital;
- **Intangible assets** – Investments in licenses, software and similar rights, net of calculated depreciation, represent a deductible item from CET 1 capital;
- **Unrealized losses on securities available for sale** – The stated losses represent a deductible from CET 1 capital and are a result of negative fluctuations of prices of relevant instruments in relation to their initial value;
- **Required reserve for estimated losses on balance-sheet assets and off-balance sheet items of the Bank** – This reserve is calculated in accordance with the Decision on Classification of Balance Sheet Assets and Off-Balance Items of Banks and represents a deductible item from Tier 1 capital. Regulatory provision of capital decrease for the amount of required reserve is effective until December 31, 2018;
- **Revaluation reserves and other unrealized gains** – The increase in the value of tangible assets and fixed assets, the positive effects of the change in the fair value of securities available for sale and actuarial gains booked on the basis of defined benefit plans have influenced the creation of revaluation reserves. These reserves are reduced by the effects of potential tax liabilities and as such are included in the Bank's CET 1 capital. Exceptionally, as of June 30, 2017 the Bank did not include revaluation reserves in CET 1 capital (RSD 3.912.441 thousand). After fulfilling the regulatory conditions of the National Bank of Serbia (adoption of an appropriate decision of the Bank's Assembly), starting from August 31, 2017 revaluation reserves and other unrealized gains are an integral part of the regulatory capital of the Bank;
- **Subordinated liabilities** – According to the regulations of the National Bank of Serbia, in December 2011 the Bank strengthened the capital base by taking subordinated loan to the amount of EUR 50,0 million from the International Finance Corporation. Loan maturity was 6 years and in accordance with the National bank of Serbia regulations at the end of year 2016 the Bank included in its Tier 2 capital subordinated loan in amount of RSD 1.230.666 thousand. Subordinated loan was repayed in December 2017 and it is no longer included in the Bank's capital;
- **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 share in equity in the following dependent persons: KomBank INVEST AD Beograd, Komercijalna Banka AD Banja Luka and Komercijalna Banka AD Budva. Total investment in dependent companies as of December 31, 2017 amounted to RSD 5.480,9 million, i.e. RSD 2.611.859 thousand net of impairment of equity investments in dependent persons. In addition to these investments, the Bank has share in equity in Euroaxis Banka AD Moscow, which exceeds 10% of capital of that legal entity, which was fully impaired on the expense side. These investments are included in the Bank's risk weighted assets with the risk weight of 250% in accordance with the Decision on Capital Adequacy of Banks and starting from June 30, 2017 are no longer deductible item from capital, since the total amount of these investments is lower than prescribed limit of 10% i.e. 17,65% calculated in accordance with the section 21 paragraphs 2 and 3 of the Decision on Capital Adequacy of Banks;
- Undistributed profit in amount of RSD 3.665.046 thousand, which will be included in reserves from profit in accordance with the Strategy and Business Plan for the period 2018-2020, due to regulatory limitations under section 10 and section 31 paragraph 10 of the Decision on Capital Adequacy of Banks is not included in the Bank's regulatory capital at the end of year 2017.
- The portion of deferred tax assets that rely on future profitability and do not arise from temporary differences in amount of RSD 857.086 thousand registered on the basis of tax benefits in accordance with the regulations, is included in the relevant position of deductible items from CET 1 capital;
- At the end of year 2017 the Bank didn't have deferred tax assets that rely on future profitability and arise from temporary differences which in sum with the significant investments in capital instruments in financial sector persons (above 10% of the capital of that person) are compared with the regulatory prescribed limit of 10%, i.e. 17,65%;
- The Bank has an option to increase its regulatory capital by using new subordinated loan. The amount in which capital instruments and

subordinated loans eligible as Tier 2 Capital are included in the calculation of the Bank's Tier 2 Capital over the last five years prior to their maturity date is calculated by multiplying the ratio of their nominal value, i.e. the principal, on the first day of the last five-year period before maturity and the number of calendar days in that period by the number of the remaining calendar days to the maturity of the instruments or subordinated liabilities, on the day of calculation.

## 8.2. Annex 2 – Data on Main Features of Financial Instruments Included in Calculation of Bank's Capital (PI- FIKAP) as of December 31, 2017

No	Instrument features	Description	Description
1	Issuer	Komercijalna banka AD Beograd	Komercijalna banka AD Beograd
1.1.	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	RSKOBBE16946	RSKOBBE19692
	<i>Regulatory treatment</i>		
2	Treatment in accordance with the Decision on Capital Adequacy of Banks	CET 1 instrument	Additional Tier 1 Capital instrument
3	Eligible at solo/(sub-)consolidated/ solo&(sub-) consolidated	Solo	Solo
4	Instrument type	Ordinary shares	Non-cumulative preferential shares
5	Amount recognised in regulatory capital (in RSD thousand, as of most recent reporting date)	RSD 39.661.040	RSD 373.510
6	Nominal amount 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
6.1.	Issue price	<p>Share issues that had issue prices are:</p> <p>XIX share issue had the issue price of RSD 28.679,54</p> <p>Number of issued shares 212.078 regular – ordinary shares with nominal value of RSD 10.000,00</p> <p>XX issue had the issue price of RSD 112.000,00. Number of issued shares was 34.679 with individual nominal value of RSD 10.000,00</p> <p>XXVII issue of ordinary shares referred to conversion of preferential exchangeable shares into ordinary shares. Total number of issued and converted shares was 8.108.646 with individual nominal value of RSD 1.000,00</p>	<p>Share issues that had issue prices are:</p> <p>XXI issue of preferential exchangeable shares had the issue price of RSD 23.759,00</p> <p>Number of issued shares 479.819 preferential exchangeable shares with nominal value of RSD 10.000,00</p> <p>XXVI issue of preferential exchangeable shares had the issue price of RSD 3.495,59</p> <p>Number of issued shares 3.310.456 with nominal value of RSD 1.000,00</p>
6.2.	Redemption price	The redemption price, in case of acquiring own shares, is determined by a special decision of the Bank's General Meeting of shareholders.	The redemption price, in case of acquiring own shares, is determined by a special decision of the Bank's General Meeting of shareholders.
7	Accounting classification	Share capital	Share capital
8	Original date of issuance	Original date of instrument issuance was May 6, 1992. On March 8, 2004 the Bank carried out the homogenization of ordinary shares, which replaced all previous share issues with a new issue of shares.	Original date of instrument issuance was May 6, 1992. On March 8, 2004 the Bank carried out the homogenization of ordinary shares, which replaced all previous share issues with a new issue of shares.
9	Perpetual or dated	No maturity date	No maturity date
9.1.	Original maturity date	No maturity date	No maturity date
10	Issuer call subject to prior supervisory approval	No	No
10.1.	Optional call date, contingent call dates and redemption amount	-	-

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10.2.	Subsequent call dates, if applicable	-	-
	<i>Coupons / dividends</i>		
11	Fixed or floating dividend/coupon	Floating dividend	Floating dividend
12	Coupon rate and any related index	-	-
13	Existence of a dividend stopper	Doesn't exist	Doesn't exist
14.1.	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
14.2.	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary
15	Existence of step up or other incentive to redeem	No	No
16	Noncumulative or cumulative dividend/coupon	Non-cumulative	Non-cumulative
17	Convertible or non-convertible	Non-convertible	Non-convertible
18	If convertible, conversion trigger(s)	-	-
19	If convertible, fully or partially	-	-
20	If convertible, conversion rate	-	-
21	If convertible, mandatory or optional conversion	-	-
22	If convertible, specify instrument type convertible into	-	-
23	If convertible, specify issuer of instrument it converts into	-	-
24	Write-down features	-	-
25	If write-down, write-down trigger(s)	-	-
26	If write-down, full or partial	-	-
27	If write-down, permanent or temporary	-	-
28	If temporary write-down, description of write-up mechanism	-	-
29	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Non-cumulative preferential shares	-
30	Non-compliant transitioned features	No	No
31	If yes, specify non-compliant features	-	-

### 8.3. Annex 3 – Reconciliation of Capital Items in the Balance Sheet with Capital Items referred to in Annex 1 (PI-UPK) as of December 31, 2017

#### 8.3.1. Itemizing of elements in Balance Sheet – 31.12.2017

Designation	Item	Balance sheet	References
A	<b>ASSETS</b>		
A.I	Cash and assets held with the central bank	49.840.887	
A.II	Pledged financial assets		
A.III	Financial assets recognised at fair value through income statement and held for trading	5.269.709	
A.IV	Financial assets initially recognised at fair value through income statement		
A.V	Financial assets available for sale	112.019.058	
A.VI	Financial assets held to maturity		
A.VII	Loans and receivables from banks and other financial organisations	29.543.789	
A.VIII	Loans and receivables from clients	153.897.367	
A.IX	Change in fair value of hedged items		
A.X	Receivables arising from hedging derivatives		
A.XI	Investments in associated companies and joint ventures		
A.XII	Investments into subsidiaries	2.611.859	
	<i>of which direct or indirect investments in banks and other financial sector entities</i>	140.000	
A.XIII	Intangible investments	460.263	

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	Intangible assets, including goodwill (reduced by associated deferred tax liabilities) (-)	460.263	Section 13, paragraph 1, item 2) (No.10. PI-KAP)
A.XIV	Property, plant and equipment	5.655.248	
A.XV	Investment property	1.988.608	
A.XVI	Current tax assets	0	
A.XVII	Deferred tax assets	857.096	
	Deferred tax assets that rely on future profitability of the bank, excluding those arising from temporary differences, net of related deferred tax liability where the conditions referred to in Section 14, paragraph 1 of the DCA are met	857.096	Section 13, paragraph 1, item 3) (No.11. PI-KAP)
A.XVIII	Non-current assets held for sale and discontinued operations	241.148	
A.XIX	Other assets	6.798.506	
	<i>of which direct or indirect investments in banks and other financial sector entities in amount above 10% of capital of those entities</i>		
A.XX	<b>TOTAL ASSETS (positions under AOP 0001 to 0019 in balance sheet)</b>	<b>369.183.538</b>	
P	<b>LIABILITIES</b>		
PO	<b>LIABILITIES</b>		
PO.I	Financial liabilities recognised at fair value through income statement and held for trading	7.845	
PO.II	Financial liabilities initially recognised at fair value through income statement		
PO.III	Liabilities arising from hedging derivatives		
PO.IV	Deposits and other liabilities to banks, other financial organisations and central bank	4.532.505	
PO.V	Deposits and other liabilities to other clients	292.471.640	
PO.VI	Change in fair value of hedged items		
PO.VII	Own securities issued and other borrowings		
PO.VIII	Subordinated liabilities		
	<i>Shares and other Tier 2 capital instruments and <b>subordinated liabilities</b>, in accordance with transitional provisions of the Decision on Capital Adequacy of Banks under section 28 and their share premium</i>		Section 27, paragraph 1, items 1) and 2) (No.41. PI-KAP)
	<i>of which subordinated liabilities included in Tier 2 Capital</i>		
PO.IX	Provisions	1.368.051	
PO.X	Liabilities under assets held for sale and discontinued operations		
PO.XI	Current tax liabilities		
PO.XII	Deferred tax liabilities		
PO.XIII	Other liabilities	7.543.442	
PO.XIV	<b>TOTAL LIABILITIES (positions under AOP 0401 to 0413 in consolidated balance sheet)</b>	<b>305.923.483</b>	
	<b>CAPITAL</b>		
PO.XV	Share capital	40.034.550	
	<i>of which: shares and other capital instruments which fulfill conditions stipulated in section 8 of the Decision on Capital Adequacy of Banks</i>	16.817.956	Section 7, paragraph 1, item 1) and section 8. (No.1.1. PI-KAP)
	<i>of which: Share premium with CET1 Capital instruments from point 1.1. i.e. the amount paid-in in excess of nominal value of those instruments</i>	22.843.084	Section 7, paragraph 1, item 1) and section 8 (No.1.2. PI-KAP)
	<i>Shares and other capital instruments which fulfill conditions stipulated in section 23 of the Decision on Capital Adequacy of Banks and their share premiums</i>	373.510	Section 22, paragraph 1, items 1) and 2) (No.30. PI-KAP)
PO.XVI	Own shares		
PO.XVII	Profit	8.137.249	
	<i>of which undistributed profit from previous years</i>	19.881	
	<i>of which current period's profit</i>	8.117.368	
PO.XVIII	Loss		
	<i>of which previous years losses</i>		
	<i>of which current period loss</i>		
PO.XIX	Reserves	15.088.256	
	<i>Revaluation reserves and other unrealized gains</i>	4.030.259	Section 7, paragraph 1, item 4) (No.4. PI-KAP)
	<i>Losses for the current and previous years, and unrealised losses (-)</i>	-3.538	Section 13, paragraph 1, item 1) (No.24 PI-KAP)
	<i>Reserves from profit and other reserves, except for reserves for general banking risks</i>	11.061.535	Section 7, paragraph 1, item 5) (No.5. PI-KAP)
PO.XX	Unrealized losses		
PO.XXI	Non-controlling participations		

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	<i>Non-controlling participations (minority interests) allowed in CET1</i>		No.7. PI-KAP
PO.XXII	<b>TOTAL CAPITAL</b>	63.260.055	
	(result of adding up or subtracting the following items from the balance-sheet: 0415 - 0416 + 0417 - 0418 + 0419 + 0420 + 0421) $\geq 0$		
PO.XXIII	<b>TOTAL CAPITAL SHORTFALL</b>		
	(result of adding up or subtracting the following AOPs from the consolidated balance-sheet: 0415 - 0416 + 0417 - 0418 + 0419 - 0420 + 0421) $< 0$		
PO.XXIV	<b>TOTAL LIABILITIES</b>	369.183.538	
	(result of adding up or subtracting the following AOPs from the consolidated balance-sheet: 0414 + 0422 - 0423)		
V.P.	<b>OFF-BALANCE SHEET ITEMS</b>		
V.P.A.	Off-balance-sheet assets	474.428.780	
V.P.P.	Off-balance-sheet liabilities	474.428.780	

### 8.3.2. Reconciliation of Capital Items in the Balance Sheet with Capital Items referred to in Annex 1 – 31.12.2017

No	Item	Amount	Balance sheet references
	<b>Common Equity Tier 1: elements</b>		
1	CET1 capital instruments and the related share premium accounts	39.661.040	
1.1.	of which: shares and other capital instruments which fulfil the requirements as laid out in Section 8 of the DCA	16.817.956	Section 7, paragraph 1, item 1) and Section 8
1.2.	of which: relevant share premium with the instruments referred to in item 1.1, i.e. the amount paid above par value of those instruments	22.843.084	Section 7, paragraph 1, item 2)
2	Profit from preceding years free of any future liabilities, to be allocated to CET 1 capital according to the decision of the bank's assembly		Section 10, paragraph 1
3	Profit of the current year or profit from the preceding year which the bank's assembly still has not decided to allocate in CET 1 capital which fulfil the requirements as laid out in Section 10, paras 2 and 3 on inclusion into CET 1 capital		Section 10, paras 2 and 3
4	Revaluation reserves and other unrealised losses	4.030.259	Section 7, paragraph 1, item 4)
5	Reserves from profit and other bank reserves, except for reserves for general banking risks	11.061.535	Section 7, paragraph 1, item 5)
6	Reserves for general banking risks		Section 7, paragraph 1, paragraph 6)
7	Non-controlling participations (minority interests) allowed in CET1		
<b>8</b>	<b>Common Equity Tier 1 capital before regulatory adjustments and deductibles (sum of rows from 1 to 7)</b>	<b>54.752.834</b>	
	<b>Common Equity Tier 1 capital: regulatory adjustments and deductibles</b>		
9	Additional value adjustments (-)		Section 12, paragraph 5
10	Intangible assets, including goodwill (net of deferred tax liabilities) (-)	-460.263	Section 13, paragraph 1, item 2)
11	Deferred tax assets that rely on future profitability of the bank, excluding those arising from temporary differences (net of related deferred tax liability where the conditions referred to in Section 14, paragraph 1 of the DCA are met)	-857.096	Section 13, paragraph 1, item 3)
12	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value, including projected cash flows		Section 12, paragraph 1, item 1)
13	IRB Approach: Negative amount of difference resulting from the calculation in accordance with Section 134 of the DCA (-)		Section 13, paragraph 1, item 4)
14	Any increase in equity that results from securitisation exposures (-)		Section 11
15	Gains or losses on bank's liabilities valued at fair value resulting from changes in own credit standing		Section 12, paragraph 1, item 2)
16	Defined benefit pension fund assets on the balance sheet of the bank(-)		Section 13, paragraph 1, item 5)
17	Direct, indirect and synthetic holdings by a bank of own Common Equity Tier 1 instruments, including own CET 1 instruments that a bank is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation (-)		Section 13, paragraph 1, item 6)

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18	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the bank, designed to inflate artificially the capital of the bank (-)		Section 13, paragraph 1, item 7)
19	Applicable amount of direct, indirect and synthetic holdings by the bank of the CET1 instruments of financial sector entities where the bank does not have a significant investment in those entities (-)		Section 13, paragraph 1, item 8)
20	Applicable amount of direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the bank has a significant investment in those entities (-)		Section 13, paragraph 1, item 9)
21	Exposure amount of the following items which qualify for a risk weight of 1.250%, where the bank deducts that exposure amount from the amount of CET1 items as an alternative to applying a risk weight of 1.250%		Section 13, paragraph 1, item 11)
21.1.	of which: holdings in entities outside the financial sector in the amount of over 10% of capital of those entities, i.e. holdings that allow exerting a significant impact on managing of a legal entity or on the business policy of that legal entity (-)		Section 13, paragraph 1, item 11), indent one
21.2.	of which: securitisation positions (-)		Section 13, paragraph 1, item 11), indent two
21.3.	of which: free deliveries (-)		Section 13, paragraph 1, item 11), indent three
22	Deferred tax assets that rely on the bank's future profitability arising from temporary differences (amount above 10% of bank's CET1 capital referred to in Section 21, paragraph 2, reduced by the amount of related tax liabilities where the requirements referred to in Section 14, paragraph 1 of the DCA are met (-)		Section 21, paragraph 1, item 1)
23	Sum of deferred tax assets and holdings of financial sector entities where the bank has a significant investment referred to in Section 21, paragraph 1 of the DCA in such entities, which exceeds the threshold referred to in Section 21, paragraph 3 of the DCA (-)		Section 21, paragraph 1
23.1.	of which: Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the bank has a significant investment in those entities		Section 21, paragraph 1, item 2)
23.2.	of which: Deferred tax assets arising from temporary differences		Section 21, paragraph 1, item 1)
24	Losses for the current and previous years, and unrealised losses (-)	-3.538	Section 13, paragraph 1, item 1)
25	Any tax charge relating to CET1 elements foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of CET1 elements insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (-)		Section 13, paragraph 1, item 12)
26	Amount of items required to be deducted from the bank's Additional Tier 1 items that exceeds Additional Tier 1 capital of the bank (-)		Section 13, paragraph 1, item 10)
27	Amount of required reserve for estimated losses on balance-sheet assets and off-balance sheet items of the bank	-2.674.785	Section 13, paragraph 1, item 13)
<b>28</b>	<b>Total regulatory adjustments and deductibles from CET1 capital</b> (sum of rows from 9 to 27)	<b>-3.995.682</b>	
<b>29</b>	<b>Common Equity Tier 1 capital</b> (difference between 8 and 28)	<b>50.757.152</b>	
	<b>Additional Tier 1 capital: elements</b>		
30	Shares and other capital instruments which fulfil the requirements as laid out in Section 23 of the DCA and related share premium	373.510	Section 22, paragraph 1, items 1) and 2)
31	Capital instruments issued by subsidiaries, which are recognised as Additional Tier 1 capital**		
<b>32</b>	<b>Additional Tier 1 capital before deductibles</b> (30+31)	<b>373.510</b>	
	<b>Additional Tier 1 capital: deductibles</b>		
33	Direct, indirect and synthetic holdings by a bank of own Additional Tier 1 instruments, including the instruments that a bank is obliged to purchase as a result of existing contractual obligations (-)		Section 26, paragraph 1, item 1)
34	Direct, indirect and synthetic holdings by a bank of the Additional Tier 1 instruments of financial sector entities with which the bank has reciprocal cross holdings, designed to inflate artificially the capital of the bank (-)		Section 26, paragraph 1, item 2)
35	Applicable amount of direct, indirect and synthetic holdings by a bank of the Additional Tier 1 instruments of financial sector entities where the bank does not have a significant investment in those entities (-)		Section 26, paragraph 1, item 3)
36	Direct, indirect and synthetic holdings by a bank of the Additional Tier 1 instruments of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for five working days or fewer (-)		Section 26, paragraph 1, item 4)
37	Amount of items required to be deducted from Tier 2 items that exceed the Tier 2 capital of the bank (-)		Section 26, paragraph 1, item 5)
<b>38</b>	<b>Total deductibles from Additional Tier 1 capital</b> (sum of rows from 33 to 37)		



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39	<b>Additional Tier 1 capital</b> (difference between 32 and 38)	373.510	
40	<b>Tier 1 capital</b> (sum of rows 29 and 39)	51.130.662	
	<b>Tier 2: elements</b>		
41	Shares and other Tier 2 capital instruments and subordinated liabilities which fulfil the requirements as laid out in Section 28 of the DCA and related share premium accounts related to instruments		Section 27, paragraph 1, items 1) and 2)
42	Capital instruments issued by subsidiaries, which are recognised as Tier 2 capital		
43	Credit risk adjustments that meet the requirements for the inclusion in Tier 2 capital		Section 27, paragraph 1, items 3) and 4)
44	<b>Tier 2 capital before deductibles</b> (sum of rows from 41 to 43)		
	<b>Tier 2 capital: deductibles</b>		
45	Direct, indirect and synthetic holdings by a bank of own Tier 2 instruments and subordinated liabilities, including instruments that the bank is obliged to purchase as a result of existing contractual obligations (-)		Section 30, paragraph 1, item 1)
46	Direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated liabilities of financial sector entities with which the bank has reciprocal cross holdings, designed to inflate artificially the capital of the bank (-)		Section 30, paragraph 1, item 2)
47	Applicable amount of direct, indirect and synthetic holdings of the Tier 2 instruments and subordinated liabilities of financial sector entities where a bank does not have a significant investment in those entities (-)		Section 30, paragraph 1, item 3)
48	Direct, indirect and synthetic holdings by the bank of the Tier 2 instruments and subordinated liabilities of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for fewer than five working days (-)		Section 30, paragraph 1, item 4)
49	<b>Total deductibles from Tier 2 capital</b> (sum of rows from 45 to 48)		
50	<b>Tier 2 capital</b> (difference between 44 and 49)		
51	<b>Total capital</b> (sum of rows 40 and 50)	51.130.662	

### 8.4. Annex 4 – Data on Total Capital Requirements and Capital Adequacy Ratio (PI-AKB)

No.	Name	Amount
<b>I</b>	<b>CAPITAL</b>	<b>51.130.662</b>
1.	TOTAL COMMON EQUITY TIER 1 CAPITAL	50.757.152
2.	TOTAL ADDITIONAL TIER 1 CAPITAL	373.510
3.	TOTAL TIER 2 CAPITAL	-
<b>II</b>	<b>CAPITAL REQUIREMENTS</b>	<b>14.667.646</b>
1.	CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, DILUTION RISK AND SETTLEMENT/DELIVERY RISK TO FREE DELIVERIES	11.752.242
1.1.	Standardised Approach (SA)	11.752.242.
1.1.1.	Exposures to central governments and central banks	2.929.476
1.1.2.	Exposures to territorial autonomies or local government units	604.647
1.1.3.	Exposures to public administrative bodies	
1.1.4.	Exposures to multilateral development banks	
1.1.5.	Exposures to international organisations	
1.1.6.	Exposures to banks	3.247.987
1.1.7.	Exposures to companies	49.596.445
1.1.8.	Retail exposures	55.680.426
1.1.9.	Exposures secured by mortgages on immovable property	7.501.623
1.1.10.	Exposures in default	7.532.086
1.1.11.	Exposures associated with particularly high risk	
1.1.12.	Exposures in the form of covered bonds	
1.1.13.	Exposures in the form of securitisation positions	
1.1.14.	Exposures to banks and companies with a short-term credit assessment	
1.1.15.	Exposures in the form of units in open-ended investment funds	
1.1.16.	Equity exposures	9.378.332
1.1.17.	Other items	10.432.000
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 companies	
1.2.4.	Retail exposures	
1.2.4.1.	of which: Exposures secured by mortgages on immovable property	
1.2.4.2.	of which: Qualifying revolving retail exposures	
1.2.4.3.	of which: Exposures to small and medium-sized enterprises classified as retail exposures	
1.2.5.	Equity exposures	

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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 applies the Standardised Approach	
1.2.6.	Exposures in the form of securitisation positions	
1.2.7.	Exposures arising from other assets	-
2	CAPITAL REQUIREMENT FOR SETTLEMENT/DELIVERY RISK IN RESPECT OF UNSETTLED TRANSACTIONS	-
3	CAPITAL REQUIREMENT FOR MARKET RISKS	<b>380.945</b>
3.1.	Capital requirements for position, foreign exchange risk and commodities risk calculated under the Standardised Approach	380.945
3.1.1.	Capital requirement for position risk of debt securities of which capital requirement for position risk in respect of securitisation items	67.423 -
3.1.2.	Capital requirements for position risk arising from equity securities	133.646
3.1.3.	Additional capital requirement for large exposures from the trading book	-
3.1.4.	Capital requirement for foreign exchange risk	179.876
3.1.5.	Capital requirement for commodities risk	-
3.2.	Capital requirements for position, foreign exchange and commodities risk calculated under the internal models approach	-
4	CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	<b>2.534.459</b>
4.1.	Capital requirement for operational risk calculated under the Basic Indicator Approach	-
4.2.	Capital requirement for operational risk calculated under the Standardised Approach/Alternative Standardised Approach	2.534.459
4.3.	Capital requirement for operational risk calculated under the Advanced Approach	-
<b>III</b>	<b>COMMON EQUITY TIER 1 CAPITAL RATIO (%)</b>	<b>27,68%</b>
<b>IV</b>	<b>TIER 1 CAPITAL RATIO (%)</b>	<b>27,89%</b>
<b>V</b>	<b>TOTAL CAPITAL RATIO (%)</b>	<b>27,89%</b>