REPORT

on disclosure of data and information of
Komercijalna Banka AD Beograd Group for the year 2018

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EXECUTIVE BOARD OF THE BANK
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1. INTRODUCTION

- Komercijalna banka AD Beograd Banking Group (hereinafter: Group) 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 2018.
- This Report contains qualitative and quantitative information as prescribed by the above mentioned Decision.
- The Report shall be publicized on the Bank's Internet domain (www.kombank.com).

THE EXECUTIVE BOARD OF THE BANK

Sladjana Jelic	Vladimir Medan, PhD
Deputy President of the Executive Board	**President of the Executive Board**

2. GENERAL INFORMATION ABOUT THE BANKING GROUP

- Komercijalna banka AD Beograd Group is composed of Komercijalna banka AD Beograd, as a parent bank and three subsidiary legal entities:
  - Komercijalna banka AD Podgorica (100% in the Bank ownership) was incorporated in November 2002 and entered in the Central Register of the Economic Court of Podgorica on 6 March 2003.
  - Komercijalna banka AD Banja Luka (99.99% in the Bank ownership) was incorporated in September 2006 and entered on September 15 of the same year in the Court Register based on the Ruling of the First Instance Court of Banja Luka.
  - Investment Fund Management Company - Kombank Invest AD Beograd (100% owned by the Bank) was established in December 2007 and registered on February 5, 2008.
- The Group's largest shareholder is the Republic of Serbia (41,75%), which has the strategic agreement with the second largest shareholder EBRD (24,43%). Among the shareholders of Komercijalna Banka Group there are also a number of internationally renowned professional investors (IFC, Swed Fund, DEG...), as well as different powerful domestic public and private companies.

3. RISK MANAGEMENT

3.1. Risk Management Strategy

- The banking Group has established the comprehensive and reliable risk management system, which allows for management of all risks that the Group is or may be exposed to on the basis of all business operations and which is proportionate to the nature, scope and complexity of Group'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 Group and its risk tolerance.
- Risk management system at the banking Group 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 Group is or may be exposed in its operations and the same is aligned with the Business Policy and Strategy.
- The implementation of the Risk Management Strategy shall be the responsibility of the competent authorities of the parent Bank and those organizational units which implement and participate in risk management system, as well as bodies and organizational units of Group members:

General Meeting of Shareholders of the parent 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 parent Bank's fixed assets and investment property.

Board of Directors of the parent Bank 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 responsibility of employees in a manner that prevents the conflict of interest and ensures a transparent and documented process of making and implementing decisions;
  - adoption of quarterly risk management reports;
  - adoption of the Recovery Plan;
  - adoption of the program and plan of the Bank's Internal Audit amd methodology of its work;
  - considering the reports of external and internal audit at banking group level;
  - providing the implementation of the internal capital adequacy process and its compliance with the strategic operating objectives.

Audit Committee of the parent Bank is in charge of:

  - 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;
  - analyzing consolidated reports of the Group that are submitted to the Board of Directors for

consideration and adoption;

- analyzing external and internal audit reports at the Group level.

Executive Board of the parent Bank 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 and semiannual and annual reports at the Group level;
- 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:

- each member of the banking group has its Assets and Liabilities Management Committee in charge of monitoring the exposure of every indiivudal banking group member to the risk that result from the structure of its balance sheet liabilities and receivables and off-balance items, proposing measures to manage interest rate and liquiditiy risk, as well as performing other duties established by the appropriate regulations of the banking group member.

Credit Committee is in charge of:

- each Group member has the Credit Committee which makes decisions within its competences and limits.

- Competences of other Committees of the Group which participate in the risk management system are determined by regulatory provisions and documents that are applied at Group level, whereas the competences of the Committees of the Group members are defined by local legislation and their internal documents.

Risk Management Function of the parent Bank is independent business function responsible for risk management at Group level, 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 Group is exposed to in its operations;
- reports to the competent authorities of the Group on risk management on consolidated level (Bank's Board of Directors, Audit Committee, Executive Board, Asset and Liability Management Committee);
- undertakes activities and measures to manage non-performing assets.

Treasury Management Division of the parent Bank is in charge of:

- it is included in process of asset and liquidity management, as well as with asset/liability management at Group level. Likewise, it participates in liquidity risk, interest rate risk and foreign exchange risk management.

Compliance Division of the parent Bank is in charge of:

- identification, monitoring, managing the compliance risk of the Group, which additionally encompasses the risk of sanctions by the regulatory authority, risk of financial losses and reputational risk.

Anti Money Laundry and Terrorist Financing Department of the parent Bank 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 Group'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 of the parent Bank is in charge of:

- continuous supervision of implementation of risk management policies and procedures at Group level and examines the adequacy of procedures and compliance of the Group with them. Internal Audit reports on its findings and recommendations to the Audit Committee and Board of Directors.

- Banking Group members have the organizational units for risk management, prevention of money laundering, asset management and internal audit.
- By its Risk Management Strategy the Group included the following:
  - overview and definition of all the risks which the Group is, or may be exposed to;
  - long-term objectives, established by the Group'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 Group;
  - basic principles of managing non-performing assets assets.
- The Group 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 Group that might occur due to non-fulfillment of the debtors' obligations towards the Group. 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 Group is exposed.
  - **Dilution Risk** – is the risk of possibility of occurrence of adverse effects on Group'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 Group'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 Group'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 Group 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 Group'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 Group 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 Group's investments in other legal entities, fixed assets and investment properties.
- **Country Risk** is the risk relating to the country of origin of the entity to which the Group is exposed, or the risk of possible negative effects on the financial result and capital of the Group due to Group'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 Group 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 Group'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 Group, 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 Group'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 Group caused by the Group'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 Group'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 Group 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 Group'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 Group 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 Group's financial result and capital due to losses caused by movement of prices of options in the market.
- The Group 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 Group due to Group'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 Group due to the use of the Group (directly or indirectly through misuse of the business relationship with the Group, transactions, services or products of the Group) for money laundering and / or terrorist financing.
- **Reputational Risk** is the risk of possible occurrence of adverse effects on Group's financial result and capital due to the loss of public confidence and unfavorable public attitude about the Group's business operations, irrespective of whether there exist the grounds for it or not.
- **Strategic Risk** is the risk of probable negative effects on Group'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 Group operates, or Group's failure to properly react to such changes.

Long-term Objectives

- Long-term objectives for Group'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 Group's capital;
  - maintaining the required level of total capital adequacy ratio, Tier 1 capital adequacy ratio and Common Equity Tiier 1 capital adequacy ratio within the prescribed limits of 8%, 6% and 4.5%, respectively, enlarged by combined capital buffer;
  - diversification of risks to which theGroup is exposed;
  - maintaining the NPL to total loans within the defined limits;
  - maintaining Liquidity Coverage Ratio (LCR) above the level prescribed by regulations which implement Basel III standard in the field of liquidity risk management.
- The objectives of risk management, including propensity to risk and risk tolerance, are aligned with the Bank's Strategy and Business Plan for the period of strategic planning 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 Group to assume risks, as well as with its risk tolerance.
- Propensity to risks shall imply the Group'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 Group.

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 at Group level;
  - 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 Group 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 Group, 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 Group's risk exposure profile and further impact on profitability, liquidity and net worth of the Group.

- Basic risk management principles:
  - to organize operation of a separate organisational unit for risk management at the individual banking Group member 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;
  - cyclicality 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 policies for each risk determine the following:
  - implementation of the risk management strategy by all risk types: credit, market, interest rate, liquidity and operational risk and other;
  - manner of organizing the risk management process of the Group and clear division of the employees' responsibilities at all stages of that process, including the process of managing bad assets, or risky placements;
  - identification of key employees in risk management process;
  - manner of assessing the risk profile of the Group members 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 Group, 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 Group;
- 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 Group is conducted pursuant to the statutory regulations and by-laws of the National Bank of Serbia.
- Group members on monthly, quarterly and annual basis report to the Risk Management Division of the parent Bank, which monitors all types of risks at Group level.
- 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 Group 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 central banks of each banking Group member;
  - 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 Group is determined by an acceptable risk level for the Group and, in accordance with the Risk Management Strategy, also depends on the Group'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 Group, 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 Group 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 in accordance with the regulations of central banks of Group members and the client's internal rating in accordance with the Group methodology) and the control of the limit utilization at the Group level.
- 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 Financial Reporting Standard 9, which is applicable as of January 1, 2018;
  - internal approach – measurement of the risk level of an individual loan on the basis of the internal rating system of the Group.
- Within the loan approval process, exposure relative to regulatory and internally defined limits is reviewed.
- Loan approval limits are defined by decision-making system at the level of each banking Group member, depending on the types of clients and the level of exposure.
- For each subsidiary of the Group an individual decision making limit is defined, pertaining to the maximum amount up to which the subsidiaries can independently place funds, i.e. without obtaining the opinion from the Credit Risk Analysis Division of the parent Bank.
- In order to maintain the risk at acceptable level, the Group members apply 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 Group 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. In accordance with IFRS 9 application, as of January 1, 2018, the Group introduced impairment stages (stage 1, stage 2 and stage 3) which correspond with the client's status. Standard clients are classified into stage 1, the clients for whom the Group identified increased credit risk (Watch list clients, delay of 31 to 90 days past due) are classified into stage 2, while NPL clients are classified into stage 3.
- Restructured performing loans are classified into the category of potentially risk clients, or stage 2, while the restructured non-performing loans are classified into NPL client category, i.e. into stage 3.
- By monitoring and controlling the portfolio as a whole and by individual segments, the Group members make comparisons to previous periods, identify the trends and the causes of changes in the level of credit risk. Likewise, they monitor 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.
- Reporting on credit risk at the Group's level includes the system of external and internal reporting on credit risk management. External reporting on consolidated level 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 Group's internal documents.
- The report on credit risk management includes: total exposure to credit risk on consolidated level, exposure to credit risk according to the Internal rating system, due receivables, risky placements and loans, collaterals, allowances for impairment, exposure risks...
- Considering the changes in National bank of Serbia regulations and requirements for further risk management process improvements, the parent Bank implemented appropriate changes in its internal acts which regulate risk management process during the year 2018. Changes in Risk management Strategy and Credit Risk Management policies were adapted so to comply with the changes in local and international regulations, while the credit risk management process was improved, including the non-performing assets management.
- At the beginning of 2018 the Group harmonized its internal acts (methodologies and procedures) with the changes in the National Bank of Serbia regulations in the field of accounting and financial reporting, which introduced the obligation of implementation of International Financial Reporting Standard 9 in banks (IFRS 9). These changes prescribed the banks' obligation to calculate the impairment in accordance with IFRS 9 starting from January 1, 2018. In accordance with IFRS 9, the Group adopted new version of Methodology for the impairment of balance sheet assets and probable loss on off-balance sheet items, which is applicable starting from January 1, 2018.

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 at the Group level and at the level of individual banking Group members, i.e. to minimize the negative effects on the financial result and capital of the Group and of each Group member.
- The Group 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 established in the parent Bank as well as independent functions of Group members) and the liquidity risk management support process from the process of liquidity risk taking.
- Basic principles of liquidity risk management:
  - the readiness to respond to matured obligations, through maintenance of minimum level of liquid assets for banking Group members;
  - 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 at the level of banking Group members and parent Bank level.
- 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) at the Group level;
  - Internal approach – application of static and dynamic GAP and ratio analysis, stress testing (sensitivity analysis and scenario analyses) and simulations.
- The parent 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.
- In order to manage the liquidity risk the system has been established of external (prescribed by local regulatory authorities of the Group members' countries) and internal limits (adopted by competent committees of the Group). Regulatory defined liquidity limits are observed by all Group members and they maintain the liquidity level above defined minimum values, aligning their operations with the limits defined at Group level. In order to manage the liquidity risk, the limit monitoring system has been established. The limits which the Group and Group members observe refer to maintaining minimum liquidity ratio and narrow liquidity ratio in period of 1 day, 3 days and average for a month and liquidity coverage ratio (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, and limitation of currency and maturity mismatches.
- 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 Group, 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 Group 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 Group 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 Group. The mitigation techniques applied by the Group relate to maintenance of sufficient level of liquidity reserves, or marketable liquid assets in major currencies, diversification of funding sources by maturity and currency, reducing the concentration of funding sources by sector structure, for the purpose of establishing a stable base of sources of funds.
- The Group has set up a liquidity risk reporting system which includes an assessment and analysis of its exposure to liquidity risk, compliance with external and internal limits, results of stress testing and proposed measures.

3.2.3. Interest Rate Risk in Banking Book

- The objective of interest rate risk management is to preserve the economic value of the Group'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 Group 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 of the parent Bank has a significant and primary role in interest rate risk management process, within its competences. Likewise, in interest rate risk management process other parent Bank's committees have their role and their decisions may have an impact on exposure to the above stated risk.
- Basic principles of the Group'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 banking Group members' 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 Group and its

members are exposed.

- Measurement of banking Group's interest rate risk constitutes a quantitative and qualitative assessment of exposure to interest rate 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 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 Group applies the external limits system (defined in local regulations of banking Group members' countries) and internal limits system (adopted by the competent bodies of the banking Group) defined separately for individual banking Group members, as well as limit at the Group level. When defining the exposure limit to interest rate risk the Group 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 Group has defined the limits of interest-bearing positions 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 Group, 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 Group, as well as the independent control of the assessment of adequacy, reliability and efficiency of the interest rate risk management system.
- The Group 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 Group 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 Group through minimization of the negative effects of changes in the exchange rate of the domestic currency on the financial result and capital of the Group, for the positions in the banking book and the trading book.
- The Group 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, at the Group level and at level of individual banking Group members.
- 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 at the Group level;
  - Internal approach – stress testing (sensitivity and scenario analysis) and simulations, Value-at-Risk and back testing.
- The Group 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 Group implements the system of external (prescribed by regulators) and internal (adopted by competent Group bodies) limits, established on the basis of Group's and banking Group members' foreign exchange risk ratios. 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 Group.
- The Group uses derivatives and other instruments and measures on assets and funding sources side, with the aim of minimization and mitigation of these risks.
- The system of monitoring and control of limits and implementation of measures for minimizing foreign exchange risk is established at the level of the Group and its members.

Position Risk Management

- The Group 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, at the level of individual banking Group members, considering the principles of the risk management system of the trading book.

- Basic principles for Group's position risk management are:
  - maintenance of the risk level in compliance with the externally and 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 Group 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.
- 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.
- The Group has in place the established system of internal limits adopted by the competent committees and boards of the Group, at the level of the banking Group and individual banking Group members. At the Group level the following is defined: exposure limits for all trading book positions, as well as limits for share of trading book in total Group's operations.
- 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 system of position risk internal control is integrated in all business activities of the Group, as well as the independent control of the assessment of adequacy, reliability and efficiency of the position risk management system. Position risk control includes and regular control of each transaction.
- The Group 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 Group 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 and which represent early warning signals for changes in the banking Group members' risk profiles;
  - 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 Group 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;
  - conducting the process of self-assessment;
  - 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 Group, 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 Group 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 Group 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 Group to third parties.
- Group calculates the capital requirement for operational risk in accordance with the regulations, 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 Group 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 Group has in place the established system for country risk reporting by which its management, competent committees and boards and organizational units are timely informed.

3.2.7. Investment Risk

- The Group 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 Group's capital, and that the Group's investments in capital instruments of the entities which are not within financial sector and in fixed assets and investment properties do not exceed 60% of the Group's capital.

3.3. Organizational Structure of the Risk Management Function

- Each Group member has established the independent Risk Management Function.
- The Risk Management Function of the parent Bank conducts its activities through the following organizational units: Risk Management Division, Credit Risk Analysis Division and Division for Prevention and Management of Risky Placements.
- Parent Bank's Risk Management Division is in charge of managing risks at the banking Group level and preparation of semi-annual consolidated risk management reports, and consists of Risk Management Systems and Methodologies Development Department, Risk Controlling Department and Market and Operational Risk Management Department.
- Credit Risk Analysis Division of the parent Bank consists of the Large Corporate Clients, Department for Credit Risk Analysis of Small and Medium Enterprises, Department for Credit Risk Analysis of Retail and Micro Clients and Department for Collateral Management and Monitoring which conduct the activities falling under their respective competences at the parent Bank's level, as well as the analysis and giving opionons about credit proposals that exceed the limits defined for subsidiaries.
- Division for Prevention and Management of Risky Placements of the parent Bank 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.
- Komercijalna banka AD Podgorica and Komercijalna banka AD Banja Luka carry out the risk management-related activities through established risk management divisions which on monthly basis report to the Risk Management Division of the parent Bank on conducted risk management activities at the level of Group members.

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

- Risk Management Function of the parent Bank identifies all the phases of risk management process, among others the phases of risk measurement and reporting on risks to which the Group 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 Group's competent management bodies.
- The Group 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 Group'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 Group's established risk management system

- The Group 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 2018 there were no limit breaches, which indicated adequacy of the established risk management system and its alignment with the Group's risk profile, business policies and strategies of individual banking Group members.

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

- The Group established Internal Capital Adequacy Assessment Process (ICAAP) in accordance with risk appetite, risk tolerance and adopted risk profile of the parent Bank ind banking Group members and uses the results of this process for determination of strategy for maintenance of required level of capital. Propensity to risks shall imply the Group'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 Group.
- The Group defines its propensity to risks as low, medium or high, while considering its position in the banking market.
- The Group 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 Group's key performance indicators are presented in the table below:

Group's key performance indicators	Realized values (December 31, 2018)	Realized values (December 31, 2017)
Capital Adequacy Ratio	25.22%	24.56%
Tier 1 Capital Adequacy Ratio	25.22%	24.56%
Common Equity Tier 1 Capital Adequacy Ratio	25.05%	24.38%
Liquidity Coverage Ratio	414%	415%
Exposure to a single person or a group of related persons	19.18%	13.40%
Exposure to a person related to a bank	0.81%	0.82%
Total exposure to persons related to a bank	1.39%	1.12%
Sum of large exposures	56.91%	45.88%
Sum of investments in non-financial sector persons and fixed assets of the Bank	14.54%	16.42%
Foreign Exchange risk ratio	12.25%	14.29%

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

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

4. GROUP'S CAPITAL AND CAPITAL REQUIREMENTS

4.1. Banking Group'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	31.12.2018.	31.12.2017.
TIER 1 CAPITAL	**57,135,973**	**51,158,788**
COMMON EQUITY TIER 1 CAPITAL	**56,762,463**	**50,785,278**
Paid-up amount of CET1 instruments	16,817,956	16,817,956
Share premium with CET1 Capital instruments	22,843,084	22,843,084
Reserves from profit, other reserves and reserves for general banking risks	14,633,760	11,570,050
Revaluation reserves and other unrealized gains/losses	5,937,215	5,673,614
Revaluation reserves and other unrealized gains	6,062,698	5,782,475
(-) Unrealized losses	(125,483)	(108,862)
Regulatory adjustment of the value of Common Equity Tier 1 capital elements, additional value adjustments (-)	(2,885)	-
Non-controlling interests (minority interest) given recognition in CET1 Capital	51	65
(-) Adjustments to CET1 due to prudential filters, except for unrealized losses on securities measured at fair value through other comprehensive income	**(3,466,720)**	**(6,119,492)**
(-) Loss (Previous years losses + Current period loss)	(1,481,701)	(1,665,678)
(-) Other intangible assets before reduction for deferred tax liabilities	(627,468)	(498,388)
(-) Deferred tax assets that rely on future profitability, except for those that arise from temporary differences, net of associated deferred tax liabilities	(840,967)	(857,096)
(-) Amount of required reserve for estimated losses under balance sheet assets and off-balance sheet items deducted from CET1 Capital	(516,584)	(3,098,330)
ADDITIONAL TIER 1 CAPITAL	**373,510**	**373,510**
Paid-up amount of AT1 instruments	373,510	373,510
TIER 2 CAPITAL	**-**	**-**
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	-	-
REGULATORY CAPITAL	**57,135,973**	**51,158,788**

4.2. Capital requirements and capital adequacy

- The Group 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 (1.52%) – while at the end of year 2018 the Group didn't calculate countercyclical capital buffer.
  - The Group calculates three capital adequacy ratios:
    - CAR of total Group's capital (min 8% + combined capital buffer requirement 6.02 pp)
    - CAR of Tier 1 Group's capital (min 6% + combined capital buffer requirement 6.02 pp)
    - CAR of Common Equity Tier 1 Group's capital (min 4,5% + combined capital buffer requirement 6.02 pp)

Capital requirements	31.12.2018.	31.12.2017.
CAPITAL	**57,135,973**	**51,158,788**
Tier 1 capital	57,135,973	51,158,788

Common Equity Tier 1 Capital	56,762,463	50,785,278
Additional Tier 1 Capital	373,510	373,510
Credit, counterparty and dilution risks and free deliveries risk	**15,201,385**	**13,441,005**
Central governments and central banks exposures	1,379,086	898,072
Territorial autonomies and local government units exposures	276,409	259,235
Public administrative bodies exposures	4	-
Banks exposures	356,177	288,811
Companies exposures	4,693,998	4,402,815
Retail exposures	5,776,993	4,928,660
Secured by mortgages on immovable property exposures	763,462	726,338
Exposures in default	668,260	686,519
Equity exposures	274,342	255,923
Other exposures	1,012,654	994,632
Market risks	**226,706**	**507,992**
Capital requirement for position risk for debt securities	35,431	67,423
Capital requirement for position risk for equity securities	147,067	133,646
Capital requirement for foreign exchange risk	44,208	306,923
Operational risk	**2,698,649**	**2,718,353**
Operational risk exposure	2,698,649	2,718,353
Total capital requirements	**18,126,740**	**16,667,350**
CET1 capital adequacy ratio (minimum 4.5%+ combined capital buffer requirement)	**25.05%**	**24.38%**
T1 capital adequacy ratio (minimum 6%+ combined capital buffer requirement)	**25.22%**	**24.56%**
Capital adequacy ratio (minimum 8%+ combined capital buffer requirement)	**25.22%**	**24.56%**

- As of December 31, 2018 the Group 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
	2015	2016	2017		
1. Corporate financing	5,498	18,575	28,769	18%	2,698,649
2.Trade and sales	(295,514)	1,112,440	2,227,695	18%	
3. Retail broker-dealer operations	6,200	3,312	7,467	12%	
4. Corporate banking operations	6,006,050	5,727,156	(3,143,389)	15%	
5. Retail banking operations	12,214,007	10,815,194	18,671,696	12%	
6.Payment transactions	2,034,688	2,172,295	2,547,019	18%	
7. Agency services	47,597	41,204	23,746	15%	
8. Property management	163,051	(253,281)	183,425	12%	

4.3. Internal Capital Adequacy Assessment Process – ICAAP

- The Group 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 Group's capital i.e. to ensure that the Group has sufficient capital at its disposal to support current and future activities and to cover all materially significant risks the Group is or can be exposed to in its operations.
- ICAAP is included in the risk management system and forms an integral part of the decision-making process in the Group. Also, it is regularly revised and adjusted, especially when the Group is exposed to new risks or significant changes.
- The Group 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;

  - Description of available internal capital management process, planning of its adequate level and responsibilities in that process;
  - Procedures for planning the adequate level of available internal capital;
  - Manner of accomplishment and maintenance of adequate level of available internal capital;
  - Limitations regarding available internal capital;
  - Representation and explanation of stress testing effects on internal capital requirements;
  - Capital allocation;
  - Business plan in the case of occurrence 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, with the Capital Management Strategy and Capital Management Plan, Recovery Plan, as well with the startegies and business plans of individual banking Group members. Basic conditions met by ICAAP implemented in the Group:
  - 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 Group is or may be exposed to in its operations;
  - Ensures adequate available internal capital in accordance with the Group's risk profile;
  - It is incorporated in the Group's management system and in decision-making process in the Group;
  - 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 Group is or may be exposed in its operations. The main objective of the internal capital adequacy assessment process is to enhance the relation among the Group's risk profile, risk management system and capital availability. The Group 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, available internal capital is also assessed through ICAAP. Planning of available internal capital also ensures maintaining the level of capital that can support the growth of loans, future funding sources, dividend policy, in accordance with strategies and business plans of individual banking Group members.
- The framework of internal capital adequacy assessment process reflects the Risk Management Strategy, Capital Management Strategy and Capital Management Plan, and the limits set where ICAAP serves as a comprehensive managing model.
- The Group 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 Group's level to be as efficient as possible.
- The basic principles of the internal capital adequacy assessment process of the Group are:
  - establishment of the internal capital adequacy assessment process of the Group 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 Group in accordance with the volume, type and complexity of the Group's operations;
  - provision of the internal capital in accordance with the risk profile of the Group.

ICAAP phases:

- Identification of risks and assessment 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 Group's business operations, as well as the specificities of the markets on which it operates. In assessing the risk materiality, the Group considers all risks to which it is exposed or which it assumes, as well the risks to which the Group may be exposed to, while starting from strategies and business plans of individual banking Group members. All assumed risks can be divided into materially 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 Group manages them through the established risk management system.
- Quantification of risks and calculation of the amount of the internal capital requirements for individual risks − the Group uses the methods prescribed for calculation of minimum capital requirements, as well as the internal approaches to

measurement. The Group performs the stress testing for all materially significant risks and internal capital, which include the risk factors specific for the environment in which the Group operates. The stress test results are taken into account at assessing and maintaining the available internal capital at a certain level.

- For the purpose of inclusion of materially significant risks in ICAAP, the Group 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 price risk arising from trading book positions)** – VaR methodology with application of stress testing as well;
  - **Interest rate risk in banking book** – methodology based on sensitivity of changes in economic value of capital and change in factors;
  - **Liquidity risk** – for ICAAP needs, the application of testing of "hypothetical" level of liquidity crisis and the calculation of the amount of missing funds are taken into consideration;
  - **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** – internal capital requirement for strategic risk is calculated using stress testing based on statistical method of standard deviation of relative negative annual deviations of realized from planned values of net interest income in the observed multi-year data series, while stress testing of this risk assumes the same method, while observing all the deviations (negative and positive) of realized from planned values of net interest income;
  - **Investment risk** – capital reserve to the level of 2% of the available internal capital;
  - **Materially insignificant risks** are included in ICAAP through the system of policies and procedures, system of limits, decision-making system.
- Calculation of total available internal capital includes results of stress testing. Also, for regulatory and available 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 Group members use 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 Group members also use the principles prescribed by the central banks in their local jurisdictions, 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 Group members 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 Group members classify 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. As of January 01, 2019, the National Bank of Serbia terminated the calculation of the reserve for estimated losses and the required reserve, but it retained the classification of borrowers and placements, therefore the parent Bank won't calculate the reserves for potential losses and required reserve.
- **The matured unsettled receivables the Bank** defines as all receivables not recovered at maturity (principal, interest and fees, as well as the interventions under guarantees, guarantees of a bill and other forms of sureties, illicit overdraft in client accounts, and other due obligations of the clients).
- **Exposures 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 Group and the Group considers – based on financial condition assessment or creditworthiness of the borrower – that the obligor is unlikely to pay its credit obligations in full to the Group without taking into consideration the possibility of realising credit protection instruments. Irrelevant if the obligor settles its obligations without delay or not, the Group considers that the obligor is unlikely to pay its credit obligations in full to the Group without taking into

consideration the possibility of realising credit protection instruments and it assessed impairment for such receivable at individual level.

- **Watch list receivables** – receivables from obligors in financial difficulties as per criteria defined in the parent Bank's and subsidiaries' internal acts and classified into Stage 2, in accordance with IFRS 9.

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 Group and cash flows which the Group 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 9,
  - 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 Group 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 future loss in accordance with IFRS 9.
- The Group 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 requirements of the IFRS 9.
- Loans are impaired and provisions made only in the case of justified or objective proof of the impairment as a consequence of the events which occurred or will be occurring after the initial recognition of the receivable, and which have an adverse impact on regular settlement of debtor's liabilities to the Group.
- 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, by discounting using the original effective interest rate. In accordance with IFRS 9 requirement, for the purposes of impairment on individual level the Group uses several collection scenarios, which are weighted with the different probabilities, summing up to 100%.

Calculation of Allowances for impairment for Balance Sheet Assets

- The Group members assess the impairment of receivables as individual and group assessment. All clients are grouped pursuant to the internally prescribed methodology based on the Group'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 (Stage 3) – 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 (Stage 1 and Stage 2) and that have not been determined as individually significant in default (Stage 3). 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 originally contracted effective interest rates of the specific loans. In terms of interventions by guarantees and other forms of sureties, current value is established by discounting the expected inflow upon applying the average annual penalty interest rate.
- Impairment on the group level is assessed for each group individually, bearing in mind their similar characteristics with respect to the credit risk.
- For the segments of corporate and retail clients, the Group calculates the expected credit losses (impairment) using the following formula:

$$ECL = \sum_{t=1}^{T} (EAD_t * MPD_t * LGD_t * DF_t)$$

  - ECL – Expected Credit Loss
  - EAD – Exposure at Default
  - MPD – Marginal Probability of Default
  - LGD – Loss Given Default
  - DF – EIR based discount factor

- The stated formula is used for the calculation of expeced credit losses (impairment) in stages 1 and 2, respecting the time horizon. In accordance with IFRS 9, starting from January 01, 2018 the Group calculates impairment and for exposures to states from which the banking Group members come, to central banks in the countries of banking Group members and for other exposures with zero risk weight, in accordance with the Decison on Capital Adequacy of Banks by National Bank of Serbia, except for exposures referring to mandatory reserves requirements and similar exposures whose expected credit losses are approaching to zero. For the calculation of impairment on exposures to states from which the banking Group members come, to central banks in the countries of banking Group members and for other exposures with zero risk weight, the Group uses PD data as published by the external rating agency Moody's, as well the Basel prescribed LGD value (45%).

Calculation of Provisions for Losses on Off-Balance Sheet Items

- Determination of individual probable losses on off-balance sheet items (contingent liabilities – payment and performance guarantees, letters of credit, sureties and other off-balance sheet items) is conducted when the Group assesses that there is fairly certain expectation of outflows for the settlement of contingent liabilities and the debtor is classified in Stage 3. Also, for the stages 1 and 2, the Group assesses the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The means of calculation of provisions for losses on off-balance sheet items for stages 1 and 2 is the same as for the on-balance sheet exposures, except in part of EAD recognition. The Group reduces the exposure applying credit conversion factors (CCF) when assessing the provisions for losses on off-balance sheet items. Due to the lack of historical data, the Group uses the best approximation of CCFs, represented by CCFs as prescribed by the regulators of each banking Group members. Provisions for losses on off-balance sheet items are booked as liabilities in the balance sheet and recognized as expense of the period in which the probability occurred in the income statement.

1) Overview of Exposures to Credit Risk per Asset Classes

RSD 000

Credit risk exposures	31.12.2018.		31.12.2017.	
	Exposure*	Average exposure	Exposure*	Average exposure
Central governments and central banks	297,572,204	290,493,078	285,878,759	300,747,707
Territorial autonomies and local government units	11,254,252	10,550,530	8,276,494	8,233,650
Public administrative bodies	489	494	0	0
Multilateral development banks	0	0	0	262
Banks	21,857,841	20,214,910	32,531,112	36,944,957
Companies	78,872,219	74,983,207	72,278,821	71,525,261
Retail	117,518,852	114,929,805	100,496,534	91,012,757
Secured by mortgages on immovable property	25,942,046	27,101,023	25,214,421	41,269,032
Exposures in default	46,199,158	45,392,950	44,963,674	25,925,168
Equity	4,911,376	4,882,616	4,626,534	4,667,399
Other items	322,057,964	327,493,842	318,077,508	315,142,567
Total	**926,186,401**	**916,042,455**	**892,343,857**	**895,468,760**

**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.*

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

RSD 000

Credit risk exposures	31.12.2018.			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	Gross exposure	Amount of impaired exposures including exposures in default	Amount of specific credit risk adjustments of impaired exposures including exposures in default
Central governments and central banks	**297,910,660**	**255,753,163**	**333,261**	**287,381,964**	**7,195,627**	**1,365,639**
Republic of Serbia	279,972,365	246,587,676	230,211	274,651,396	-	-
Bosnia and Herzegovina	14,783,195	7,353,137	81,909	9,953,876	6,396,080	1,365,634
Montenegro	3,154,310	1,811,560	21,136	2,775,141	799,297	5

Other	790	790	5	1,551	250	-
Territorial autonomies and local government units	**11,347,313**	**7,694,791**	**51,690**	**8,324,844**	**5,617,103**	**251**
Republic of Serbia	8,966,684	7,196,186	50,183	5,629,445	2,921,705	226
Bosnia and Herzegovina	2,171,085	498,596	1,507	2,413,848	2,413,848	22
Montenegro	209,544	9	-	281,551	281,550	3
Public administrative bodies	**500**	**500**	**11**	**-**	**-**	**-**
Republic of Serbia	500	500	11	-	-	-
Banks	**21,885,656**	**16,402,644**	**17,469**	**32,539,789**	**1,983,601**	**35**
Montenegro	3,799	3,799	299	14,183,620	112	-
Republic of Serbia	8,366,952	6,735,947	14,541	9,004,072	818,151	24
Germany	9,095,157	7,885,263	2,067	5,827,813	-	-
USA	-	-	-	1,026,384	-	-
Austria	1,254,473	1,026,913	285	-	-	-
Bosnia and Herzegovina	785,061	2,428	30	637,731	306,391	3
Other	2,380,214	748,295	247	1,860,169	859,059	8
Companies	**80,088,665**	**60,343,403**	**1,037,031**	**73,438,691**	**71,663,310**	**497,181**
Republic of Serbia	63,723,684	46,738,204	692,531	63,720,800	62,916,036	6,446
Montenegro	5,424,690	4,254,247	233,730	6,006,746	5,245,664	54,875
Bosnia and Herzegovina	10,921,399	9,350,952	110,770	3,693,069	3,501,610	435,860
Other	18,892	-	-	18,076	-	-
Retail	**118,416,870**	**90,354,302**	**822,492**	**101,635,281**	**94,023,887**	**794,957**
Republic of Serbia	105,687,605	82,279,140	585,353	91,772,882	86,715,231	38,403
Bosnia and Herzegovina	5,361,555	3,813,125	62,335	5,164,656	4,052,949	83,603
Montenegro	7,324,898	4,234,954	174,607	4,662,384	3,220,351	672,873
Other	42,812	27,084	197	35,359	35,336	78
Secured by mortgages on immovable property	**26,012,087**	**11,656,831**	**36,896**	**25,312,181**	**24,865,771**	**40,634**
Bosnia and Herzegovina	1,640,658	773,429	5,229	1,862,164	1,419,549	974
Montenegro	3,092,433	1,247,152	13,689	2,178,742	2,178,741	6,260
Republic of Serbia	21,278,996	9,636,250	17,978	21,271,275	21,267,481	33,400
Exposures in default	**61,163,877**	**22,482,558**	**14,831,290**	**66,070,054**	**30,492,724**	**19,629,785**
Republic of Serbia	58,966,053	20,789,130	13,663,751	63,293,659	27,794,838	17,898,738
Bosnia and Herzegovina	1,169,669	760,511	393,952	1,328,700	1,319,245	923,943
Montenegro	547,874	512,390	353,061	973,198	964,170	392,634
Other	480,281	420,527	420,526	474,497	414,471	414,470
Equity	**4,911,927**	**3,331,184**	**462**	**5,131,965**	**538,769**	**504,732**
Austria	3,331,184	3,331,184	462	3,279,824	-	-
USA	1,256,020	-	-	1,026,613	-	-
Republic of Serbia	317,384	-	-	743,109	460,383	426,345
Montenegro	355	-	-	355	-	-
Other	6,984	-	-	82,064	78,386	78,387
Other items	**329,978,958**	**17,491,246**	**7,882,970**	**327,779,225**	**20,089,309**	**9,343,010**
Republic of Serbia	288,975,006	15,610,942	6,389,270	305,493,447	15,883,207	6,070,292
Bosnia and Herzegovina	20,606,993	407,843	54,902	18,320,567	2,096,560	1,530,944
Montenegro	20,395,508	1,471,011	1,438,773	3,963,761	2,108,091	1,741,767
Other	1,451	1,451	25	1,450	1,451	7
Total	**951,716,513**	**485,510,622**	**25,013,572**	**927,613,994**	**256,470,100**	**32,176,224**

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* RSD 000

Credit risk exposures	31.12.2018.			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	Gross exposure	Amount of impaired exposures including exposures in default	Amount of specific credit risk adjustments of impaired exposures including exposures in default
Central governments and central banks	**297,910,660**	**255,753,163**	**333,261**	**287,381,964**	**7,195,627**	**1,365,639**
Finance and insurance sector	42,484,226	1,500,597	300	65,389,896	1,565,591	1,365,591
General government sector	251,129,927	249,956,059	288,582	218,937,254	2,576,722	17
Foreign entities sector	4,295,207	4,295,207	44,376	3,054,614	3,053,314	31
Other legal entities sector	1,300	1,300	3	200	-	-
Territorial autonomies and local government units	**11,347,313**	**7,694,791**	**51,690**	**8,324,844**	**5,617,103**	**251**
Public non-financial sector	472,836	-	-	-	-	-
General government sector	10,122,956	7,694,774	51,689	6,036,201	3,994,336	236
Foreign entities sector	751,504	-	-	665,877	-	-
Other legal entities sector	17	17	1	1,622,766	1,622,767	15
Public administrative bodies	**500**	**500**	**11**	**-**	**-**	**-**
General government sector	500	500	11	**-**	**-**	**-**
Banks	**21,885,656**	**16,402,644**	**17,469**	**32,539,789**	**1,983,601**	**35**
Finance and insurance sector	8,626,355	6,735,934	14,541	23,365,050	967,650	25
Other – which can't be classified into mentioned sectors	4,908	-	-	5	-	-
Company sector	1	1	-	1	1	-
Foreign entities sector	12,979,356	9,666,690	2,927	9,017,730	858,947	9
Other legal entities sector	275,036	19	1	157,003	157,003	1
Companies	**80,088,665**	**60,343,403**	**1,037,031**	**73,438,691**	**71,663,310**	**497,181**
Finance and insurance sector	30,924	7,195	74	605	606	-
Public non-financial sector	13,253,044	9,745,211	49,296	12,141,488	11,923,741	95,364
Company sector	56,014,267	40,048,785	807,147	55,924,853	54,416,374	368,403
Entrepreneurs sector	1	1	-	1	1	-
General government sector	1,207,637	1,108,070	13,242	1,231,059	1,199,980	4,052
Retail sector	150,910	64,366	42	5,081	5,081	5
Foreign entities sector	9,045,049	9,045,049	165,009	4,074,154	4,056,078	28,905
Other legal entities sector	386,833	324,726	2,221	61,450	61,449	452
Retail	**118,416,870**	**90,354,302**	**822,492**	**101,635,281**	**94,023,887**	**794,957**
Finance and insurance sector	29,356	28,957	1,303	37,417	32,493	1,022
Other – which can't be classified into mentioned sectors	2,000	-	-	-	-	-
Public non-financial sector	136,536	78,056	639	126,536	106,901	573
Company sector	30,382,401	19,097,160	370,303	26,125,123	23,985,894	248,389
Entrepreneurs sector	4,916,835	4,150,254	70,013	3,881,642	3,866,926	71,518
General government sector	33,583	33,583	249	85,009	77,982	97
Retail sector	82,671,696	66,893,823	378,360	70,888,581	65,605,418	470,198
Foreign entities sector	49,141	47,246	515	82,902	79,328	418
Private households with employed persons and registered agricultural producers	40,863	5,031	15	12,174	6,000	-
Other legal entities sector	154,459	20,192	1,095	395,897	262,945	2,742
Secured by mortgages on immovable property	**26,012,087**	**11,656,831**	**36,896**	**25,312,181**	**24,865,771**	**40,634**
Finance and insurance sector	18,533	18,533	436	-	-	-
Company sector	4,980,171	1,186,103	21,407	3,545,572	3,542,383	12,498
Entrepreneurs sector	259,544	81,769	1,154	214,482	214,482	227
General government sector	-	-	-	1,580	-	-
Retail sector	20,503,890	10,370,426	13,899	21,440,824	20,999,183	27,871
Private households with employed persons and registered agricultural producers	-	-	-	43,145	43,145	-
Other legal entities sector	249,949	-	-	66,578	66,578	38
Exposures in default	**61,163,877**	**22,482,558**	**14,831,290**	**66,070,054**	**30,492,724**	**19,629,785**
Finance and insurance sector	108,949	3,486	3,485	108,859	3,396	3,392
Public non-financial sector	5,065,697	1,818,069	1,209,232	5,197,410	2,292,908	1,153,332

Company sector	24,411,940	10,603,175	5,847,634	28,964,506	17,559,892	10,765,385
Entrepreneurs sector	497,402	126,620	83,686	488,127	179,359	128,570
General government sector	5,184,932	173,616	157,070	1,069,715	139,627	135,174
Retail sector	5,193,838	2,820,268	1,652,862	5,271,668	3,679,672	1,809,412
Foreign entities sector	488,519	424,931	423,937	481,430	417,996	416,978
Other legal entities sector	20,212,600	6,512,393	5,453,384	24,488,339	6,219,874	5,217,542
Equity	**4,911,927**	**3,331,184**	**462**	**5,131,965**	**538,769**	**504,732**
Finance and insurance sector	315,360	-	-	342,878	60,276	28,828
Public non-financial sector	1,899	-	-	31,073	31,073	28,484
Company sector	480	-	-	3,564	3,084	3,084
General government sector	-	-	-	800	800	800
Foreign entities sector	4,594,188	3,331,184	462	4,388,500	78,386	78,386
Other legal entities sector	-	-	-	365,150	365,150	365,150
Other items	**329,978,958**	**17,491,246**	**7,882,970**	**327,779,225**	**20,089,309**	**9,343,010**
Finance and insurance sector	46,179,648	1,820,830	1,491,447	29,796,722	4,126,924	3,272,248
Other – which can't be classified into mentioned sectors	283,182,651	15,250,719	6,382,900	297,191,664	15,201,498	6,046,671
Public non-financial sector	7	7	-	1,136	1,134	115
Company sector	130,496	56,994	571	290,859	290,232	1,640
Entrepreneurs sector	9,904	9,904	809	24	24	5
General government sector	8,845	8,325	129	24,000	13,045	621
Retail sector	345,445	249,779	2,517	336,293	328,657	20,682
Foreign entities sector	1,460	1,451	25	1,451	1,451	7
Other legal entities sector	120,502	93,237	4,572	137,076	126,344	1,021
Total	**951,716,513**	**485,510,622**	**25,013,572**	**927,613,994**	**256,470,100**	**32,176,224**

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

4) The residual maturity breakdown of all exposures, by exposure classes *RSD 000*

Credit risk exposures Residual maturity	31.12.2018. Gross exposure	31.12.2017. Gross exposure
Central governments and central banks	**297,910,660**	**287,381,964**
Up to three months	85,629,637	99,500,586
From three months to 6 months	25,907,872	19,698,948
From 6 months to 1 year	6,048,123	19,570,536
Over 1 year	180,325,027	148,611,894
Territorial autonomies and local government units	**11,347,313**	**8,324,844**
Up to three months	753,079	677,482
From three months to 6 months	62,527	44,583
From 6 months to 1 year	11,491	7,602,779
Over 1 year	10,520,216	-
Public administrative bodies	**500**	-
Over 1 year	500	-
Banks	**21,885,656**	**32,539,789**
Up to three months	18,117,938	31,143,102
From three months to 6 months	316,667	301,419
From 6 months to 1 year	782,892	656,630
Over 1 year	2,668,159	438,638
Companies	**80,088,665**	**73,438,691**
Up to three months	7,124,737	7,722,222
From three months to 6 months	6,138,400	5,036,378
From 6 months to 1 year	10,593,740	12,406,811
Over 1 year	56,231,788	48,273,280
Retail	**118,416,870**	**101,635,281**
Up to three months	12,942,496	11,512,969
From three months to 6 months	7,849,628	4,777,030
From 6 months to 1 year	15,564,463	14,302,083
Over 1 year	82,060,283	71,043,199
Secured by mortgages on immovable property	**26,012,087**	**25,312,181**
Up to three months	61,531	46,572
From three months to 6 months	325,492	335,817
From 6 months to 1 year	312,754	692,414
Over 1 year	25,312,310	24,237,378
Exposures in default	**61,163,877**	**66,070,054**
Up to three months	48,567,137	48,188,133

From three months to 6 months	86,047	164,049
From 6 months to 1 year	1,454,606	4,488,723
Over 1 year	11,056,087	13,229,149
Equity	**4,911,927**	**5,131,965**
Up to three months	1,657,630	-
Over 1 year	3,254,297	5,131,965
Other items	**329,978,958**	**327,779,225**
Up to three months	329,404,779	327,078,225
From three months to 6 months	33,802	95,333
From 6 months to 1 year	129,376	107,297
Over 1 year	411,001	498,370
Total	**951,716,513**	**927,613,994**

5) Presentation of changes in specific credit risk adjustments for impaired exposures RSD 000

	Loans to banks	Loans to customers	Investment securities - local government bonds	Investments in dependent companies	Other assets	Off-balance exposure
Balance as of January 01, 2018	202,579	18,773,614	3	3,140,917	171,582	22,288,695
Correction of beginning balance IFRS 9 – correction of result in capital	18,982	859,653	1,828	78,900	85,303	1,044,666
Correction of beginning balance 100% impaired shares	-	-	-	(504,732)	-	(504,732)
Corrected balance as of January 01, 2018	**221,561**	**19,633,267**	**1,831**	**2,715,085**	**256,885**	**22,828,629**
Increase of impairment	56,129	5,990,896	586	242,526	383,333	6,673,470
Decrease of impairment	(59,817)	(5,745,785)	(818)	(291,286)	(330,916)	(6,428,622)
FX differencies	9,171	(13,667)	(5)	(1,496)	(90)	(6,087)
Permanent write-offs	-	(5,155,182)	-	(10,785)	-	(5,165,967)
Other changes	827	200,514	-	(16,345)	-	184,996
Balance as of December 31, 2018	**227,871**	**14,910,043**	**1,594**	**2,637,699**	**309,212**	**18,086,419**

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

- In 2018, the Group increased the net expenses of the allowances for impairments and provisions for losses in the total amount of RSD 244,848 thousand, mostly as a result of new risky placements in corporate and retail segments, changes in internal rating (from 1 and 2 to 3) and new lower-value estimates of collaterals. Aforementioned increases refer to the parent Bank, while the banking Group members Komercijalna Banka Banja Luka and Komercijalna Banka Podgorica experienced reduction in the allowances for impairments and provisions for losses due to collection of receivables. 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 6,428,622 thousand. Of the other changes in the accounts of allowances for impairments and provisions for losses, the amount of RSD 5,165,967 thousand relates to the permanent write-off of the part of assigned receivable followed by the transfer from the parent Bank's balance sheet to off-balance sheet records.

6) Exposure according to risk categories and client type as of 31.12.2018 RSD 000

Classification	Corporate clients	Banks	Retail clients	Total
1	30,526,292	15,288,247	63,147,920	**108,962,459**
2	78,299,464	7,435,079	49,153,270	**134,887,813**
3	9,499,735	2,250	853,765	**10,355,750**
4	3,288,064	-	1,287,988	**4,576,051**
5	16,317,705	1,618,669	3,090,346	**21,026,720**
Total	**137,931,260**	**24,344,244**	**117,533,289**	**279,808,793**

** Note: total exposure to credit risk by risk categories and client types is shown in gross amount before the impairment.*

Use of credit ratings

- In 2018, the Group 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 instruments from the banking book, the Group does not use the credit ratings of the issuers nor their specific issues due to their non-existence. For the financial instrument issued by the Republic of Serbia, the Group 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%

7) Exposures to the central governments and central banks per credit quality steps and credit risk weights 000 RSD

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*)	
		31.12.2018.	31.12.2017.	31.12.2018.	31.12.2017.
Central governments and central banks		**297,571,956**	**285,878,675**	**299,443,519**	**287,225,262**
1	0%	279,742,155	274,652,696	281,613,718	275,999,283
2	20%	298	-	298	-
5	100%	17,829,503	11,225,979	17,829,503	11,225,979

** Note: in column Exposure amount before application of credit protection instruments gross exposure is reduced by the amount of specific credit risk adjustments and the amount of required reserve for estimated losses.*

Credit Risk Mitigation Techniques

Valuation of credit protection instruments and their managing

- The Group has regulated the 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 Group member and the applicant, and their procuring after the conclusion of the agreement and prior to realization of the loan.
- The Group members 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.
- 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 Group can collect.

Description of basic types of credit protection instruments

- The Group uses the following credit protection instruments:
  - funded credit protection instruments;
  - unfunded credit protection instruments.
- Among the funded credit protection instruments, the Group 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 Group uses as appropriate instruments of protection:
  - Cash and cash equivalents deposited with the Group members, 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 Group 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 Group 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 Group members' procedures for managing credit risk and procedures used in the procedure for determining creditworthiness. At the end of 2017, the Group 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 Group 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 Group reports to the management on semi-annually basis on large exposures on consolidated level.
- 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 2018.

8) 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	
	31.12.2018.	31.12.2017.	31.12.2018.	31.12.2017.
Central governments and central banks	-	-	-	-
Territorial autonomies and local government units		-		-
Banks	25,367	22,801		-
Companies	511,058	280,721	1,580,848	709,932
Retail	2,006,846	1,882,726	290,715	-
Secured by mortgages on immovable property	-	-	-	-
Exposures in default	226,752	201,953	-	636,655
Equity	-	-	-	-
Other items	7,189	12,245	-	-
Total	**2,777,212**	**2,400,446**	**1,871,563**	**1,346,587**

**Note: exposure presented after application of the volatility factors and before the application of credit conversion factors.*

5.2. Counterparty Credit Risk

Rizik druge ugovorne strane

- Group 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.
- The banking Group members do not perform transactions that are subject to counterparty credit risk.
- For the needs of calculating the exposure of the positions that are subject to calculation of the capital requirements for the counterparty risk, the Group 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 Group 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 parent 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 Group 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 Group 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 Group 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).
- At the end of 2018 only the parent Bank had exposures which carry counterparty credit risk.

Exposure to counterparty credit risk – repo transaction RSD 000

Transaction type	Exposure value	
	31.12.2018.	31.12.2017.
Repo transaction	1,500,297	15,005,340

Exposure to counterparty credit risk – credit derivatives RSD 000

Transaction type	Date	Fair value	Current exposure	Hypothetical value	Potential future exposure (PFE)
Swap	31.12.2018.	4,070	-	17,729	21,799
	31.12.2017.	(7,845)	-	592,364	5,924

5.3. Liquidity Risk

- The Group 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 Group's liabilities in terms of the deposit potential and share of adequate sources of funding in Group'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 Group uses the following liquidity risk measurement techniques: GAP analysis, Ratio analysis, liquidity indicators monitoring, stress testing.
- The Group 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. The Group has aligned its operations with the regulatory prescribed liquidity coverage ratio. During 2018 the Group maintained liquidity coverage ratio (LCR) at the level which was not below the regulatory prescribed limit (100%).
- On long-term basis, the Group members plan the structure of their funding and placements in order to provide sufficient stable funding sources and liquidity reserves.
- The parent Bank measures the exposure to the liquidity risk of the Group by analyzing the Group's exposure relative to the defined limits.
- The Group regularly conducts stress testing and simulation of different assumptions that influence the impact, on the Group's exposure to liquidity risk. Simulating significant positive and negative changes in the Group's exposure to the liquidity risk arising from internal (specific) and external (systemic) factors tests the liquidity of the Group members, which deviate from the regular business conditions. Stress testing is carried out in order to examine possible inability to cover the Group members' obligations with available liquidity reserves and alternative sources of funds.
- The Group members test individual Liquidity Contingency Plans (LCP) by which they identify the possible crisis, test the survival period and solvency of the members in presumed crisis conditions, and also perceive and analyze 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 parent 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 Group 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 Group measures the exposure to interest rate risk by Gap and ratio analysis, interest rate shock and duration, by stress tests and simulations minimum on semiannually basis, while GAP, ratio analysis, duration and interest rate shock are applied monthly at the level of each Group member.
- 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 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 Group 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 Group. When determining the exposure to the interest rate risk in the banking book and the limits of this risk, the Group assesses the negative effects of changing the interest rates on the financial result of the Group (income statement), as well as on the economic value of the Group. When modelling the scenario, in addition to change of the interest rate, the influence of temporarily withdrawal of deposits and early repayment of laons is particularily considered, since the Group is assessing on the basis of historical movements and expert opinions. The parent 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, which is applied at the Group level.
- Within the framework of the interest rate risk assessment in the banking book, the Group 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 Group estimates the impact that could have standardized interest rate shock for each significant currency individually and for all other currencies cumulatively.
- The Group 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 Group 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).
- Internal factors of exposure to foreign exchange risk originate from currency structure of loans and deposits: loans are primarily denominated in RSD with currency clause (EUR and CHF), and/or in BAM with currency clause. In 2018 the exposure to foreign exchange risk remained within the defined limits.
- The Group 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 Group.
- The Group is insignificantly exposed to the position risk, which is also demonstrated by the share of the trading book in total operations of the Group, which amounts to 0.68% and which is exclusively the exposure of the parent Bank. In the structure of position risk exposure the dominant is the share of bonds available for trading issued by Republic of Serbia, as well as the share of equity instruments. The Group members do not take up positions in the trading book.
- The Group 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 Group 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 parent 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 parent Bank has founded Komercijalna banka AD Podgorica, 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 parent Bank and KB Podgorica also hold minority equity investments in companies, which enable them 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.
- 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 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.

Exposure per investment purpose as of 31.12.2018 RSD 000

Equity investments in banking book	Carrying value	Allowances	Fair value	Realized gain/loss	Unrealized gain	Unrealized loss
Banks and financial organizations	80,270	80,270	-	-	-	-
Companies and other legal entities	410,760	366,391	44,368	-	16,225	4,143

Foreign entities abroad	1,256,375	-	1,256,375	-	1,256,020	-
Total	**1,747,405**	**446,661**	**1,300,743**		**1,272,244**	**4,143**

Exposure value as of 31.12.2018 RSD 000

Exposure type	Carrying value	Fair value
Holdings and investments in capital		
quoted on stock exchange	1,290,678	-
not quoted on stock exchange	456,727	1,300,743
Total	**1,747,405**	**1,300,743**

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

- In 2018, the Group 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 Group discloses the leverage ratio, which represents the ratio between the Group's Tier 1 capital and total amount of exposures which are defined for leverage ratio calculation and is expressed as percentage.

No.	Description	Value	
		31.12.2018.	31.12.2017.
I	Leverage ratio	12.70%	11.38%

7. CONSOLIDATED FINANCIAL STATEMENTS AND GROUP OPERATIONS

- Financial statements of all the members of the Banking Group are consolidated by full consolidation method in accordance with relevant IAS/IFRS .
- The Group 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

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

Consolidation for supervision		Consolidation according to IFRS	Difference
Description of balance sheet position	Amount in RSD 000	Amount in RSD 000	Amount in RSD 000
Assets	441,565,971	441,586,959	(20,988)
Liabilities	370,054,884	370,064,908	(10,024)
Capital	71,511,087	71,522,051	(10,964)
Profit before tax	8,379,542	8,381,166	(1,624)
Income tax	(651)	(832)	181
Profit after tax	8,378,891	8,380,334	(1,443)

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 – Consolidated data on banking Group Capital (PI-KAP) as of December 31, 2018

No	Item	Amount	DCA reference*
	Common Equity Tier 1: elements		
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	6,062,698	Section 7, paragraph 1, item 4)
5	Reserves from profit and other bank reserves, except for reserves for general banking risks	14,633,760	Section 7, paragraph 1, item 5)
6	Reserves for general banking risks	0	Section 7, paragraph 1, paragraph 6)
7	Non-controlling participations (minority interests) allowed in CET1**	51	
8	**Common Equity Tier 1 capital before regulatory adjustments and deductibles** (sum of rows from 1 to 7)	**60,357,550**	
	Common Equity Tier 1 capital: regulatory adjustments and deductibles		
9	Additional value adjustments (-)	(2,885)	Section 12, paragraph 5
10	Intangible assets, including goodwill (net of deferred tax liabilities) (-)	(627,468)	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)	(840,967)	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.	*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)

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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 (-)	(1,607,184)	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	(516,584)	Section 13, paragraph 1, item 13)
28	**Total regulatory adjustments and deductibles from CET1 capital** (sum of rows from 9 to 27)	**(3,595,088)**	
29	**Common Equity Tier 1 capital** (difference between 8 and 28)	**56,762,463**	
	Additional Tier 1 capital: elements		
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	**Additional Tier 1 capital before deductibles** (30+31)	**373,510**	
	Additional Tier 1 capital: deductibles		
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	**Total deductibles from Additional Tier 1 capital** (sum of rows from 33 to 37)		
39	**Additional Tier 1 capital** (difference between 32 and 38)	373,510	
40	**Tier 1 capital** (sum of rows 29 and 39)	**57,135,973**	
	Tier 2: elements		
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	**Tier 2 capital before deductibles** (sum of rows from 41 to 43)		
	Tier 2 capital: deductibles		
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	**Total deductibles from Tier 2 capital** (sum of rows from 45 to 48)		
50	**Tier 2 capital** (difference between 44 and 49)		
51	**Total capital** (sum of rows 40 and 50)	**57,135,973**	
52	**Total risk-weighted assets**	**226,584,255**	**Section 3, paragraph 2**
	Capital adequacy ratios and capital buffers		
53	Common Equity Tier 1 capital ratio (%)	25.05%	Section 3, paragraph 1, item 1)
54	Tier 1 capital ratio (%)	25.22%	Section 3, paragraph 1, item 2)

55	Total capital ratio (%)	25.22%	Section 3, paragraph 1, item 3)
56	Total requirements for capital buffers (%)***	6.02%	Section 433
57	Common Equity Tier 1 capital available for capital buffers coverage (%)****	17.05%	

* 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 (Consolidated data on banking Group Capital – Form PI –KAP) as of December 31, 2017 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 of the parent Bank and its subsidiaries abroad (KB Podgorica and KB Banja Luka) and effective regulatory framework. 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** – Consolidated losses from previous years in amount of RSD 1,481,701 million are a deductible item from consolidated capital of the banking Group.
- **Intangible investments** (intangible assets) – Investments in licenses, software and similar rights, net of calculated depreciation, represent a deductible item from CET 1 capitals of each banking Group member.
- **Unrealized losses on securities measured at fair value through other comprehensive income** refer to Komercijalna banku AD Beograd, Komercijalna banka AD Podgorica and Komercijalna banka AD Banja Luka. 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:
  - ✓ Decision on Classification of Balance Sheet Assets and Off-Balance Items of Banks („Official Gazette or RS", Nos. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016, 101/2017, 114/2017, 103/2018 and 8/2019) – KB Beograd,
  - ✓ Decision on Minimum Standards on Managing Credit Risk in Banks („Off.Gazzete of Montenegro", 22/2012, 55/2012, 57/2013, 44/2017 and 88/2017) – for KB Podgorica,
  - ✓ Decision on Minimum Standards on Managing Credit Risk and Assets Classification of Banks („Official Journal of the Republic of Srpska", No. 49/2013, 01/2014 and 117/2017) – for KB Banja Luka

i and represents a deductible item from CET1 capital. Regulatory provision of capital decrease for the amount of required reserve is effective until December 31, 2018 at the parent Bank level.

- **Revaluation reserves and other unrealized gains** – The increase in the value of intangible assets and fixed assets, the positive effects of the change in the fair value of securities measured at fair value through other comprehensive income of the banking Group members (KB Beograd, KB Podgorica and KB Banja Luka) 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 Group's CET 1 capital upon the fulfillment of the regulatory conditions of the National Bank of Serbia (adoption of an appropriate decision of the parent 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 and the banking Group.
- **Additional value adjustments** – regulatory value adjustments of CET1 capital elements, which represent deductible item of capital, refer to additional value adjustments of long-term debt securities issued by foreign governments (Ministry of Finance Republic of Srpska) and KB Banja Luka securities portfolio, due to assessment that independent sources of market information are not available, i.e. there are no available benchmark prices. In accordance with the Decision on Capital Adequacy of Banks the amount of additional value adjustments (RSD 2,885 thousand) is calculated as 0.1% of the aforementioned portion of fair value of long-term debt securities.
- **Subordinated liabilities** – Subordinated loan was repayed in December 2017 and it is no longer included in the parent 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 Podgorica. Total investment in dependent companies as of December 31, 2018 amounted to RSD 5,480.9 million. These investments, which after consolidation using equity method amount to RSD 140,000 thousand, are in accordance with the Decision on Capital Adequacy of Banks, included in KB Group risk weighted assets with the risk weight of 250%. Starting from June 30, 2017 aforementioned investments 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. In addition to these investments, the parent 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.
- **Part of undistributed profit** of Komercijalna banka AD Beograd Group, which will be retained within the Group in accordance with the Strategy and Business Plan for the period 2019-2021, 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 Group's regulatory capital. Based on the Strategy and Business

Plan, the projected increase of the banking Group reserves in 2019 amounts to cca RSD 4,714,042 thousand.

- Reserves of KB Group based on consolidation of impairment of equity investments in subordinated banks in the Group (KB Podgorica and KB Banja Luka) in total amount of RSD 2,869,029 thousand were not included in regulatory capital of KB Group due to regulatory limitations under section 31 paragraph 10 of the Decision on Capital Adequacy of Banks.
- **The portion of deferred tax assets that rely on future profitability and do not arise from temporary differences** in amount of RSD 840,967 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 2018, after netting with the corresponding deferred tax liabilities, **KB Group 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%.
- On consolidated level, the parent 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 Group'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 banking Group's Capital (PI-FIKAP) as of December 31, 2018

No	Instrument features	Description	Description	Description
1	Issuer	Komercijalna banka AD Beograd	Komercijalna banka AD Beograd	Komercijalna banka AD Banja Luka
1.1.	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	RSKOBBE16946	RSKOBBE19692	KMCB-R-A
	Regulatory treatment			
2	Treatment in accordance with the Decision on Capital Adequacy of Banks	CET 1 instrument	Additional Tier 1 Capital instrument	CET 1 instrument
3	Eligible at solo/(sub-)consolidated/ solo&(sub-) consolidated	Solo	Solo	Consolidated
4	Instrument type	Ordinary shares	Non-cumulative preferential shares	Ordinary shares
5	Amount recognised in regulatory capital (in RSD thousand, as of most recent reporting date)	RSD 39,661,040	RSD 373,510	RSD 60
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	Single piece of ordinary share - non-controlling participation (minority interest), recognized in CET 1 Capital of the banking Group, with nominal value of BAM 1,000.00
6.1.	Issue price	Share issues that had issue prices are:	Share issues that had issue prices are:	The shares didn't have issue price
		XIX share issue had the issue price of RSD 28,679.54	XXI issue of preferential exchangeable shares had the issue price of RSD 23,759.00	
		Number of issued shares 212,078 regular – ordinary shares with nominal value of RSD 10,000.00	Number of issued shares 479,819 preferential exchangeable shares with nominal value of RSD 10,000.00	
		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	XXVI issue of preferential exchangeable shares had the issue price of RSD 3,495.59.	
		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	Number of issued shares 3,310,456 with nominal value of RSD 1,000.00	
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.	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	Share capital
8	Original date of issuance	Original date of instrument issuance was May 6, 1992.	Original date of instrument issuance was May 6, 1992.	Original date of instrument issuance was September 15, 2006
		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.	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	No maturity date
9.1.	Original maturity date	No maturity date	No maturity date	No maturity date
10	Issuer call subject to prior supervisory approval	No	No	No
10.1.	Optional call date, contingent call dates and redemption amount	-	-	-
10.2.	Subsequent call dates, if applicable	-	-	-

	Coupons / dividends	-	-	-
11	Fixed or floating dividend/coupon	Floating dividend	Floating dividend	Floating dividend
12	Coupon rate and any related index	-	-	-
13	Existence of a dividend stopper	Doesn't exist	Doesn't exist	Doesn't exist
14.1.	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary
14.2.	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Fully discretionary
15	Existence of step up or other incentive to redeem	No	No	No
16	Noncumulative or cumulative divident/coupon	Non-cumulative	Non-cumulative	Non-cumulative
17	Convertible or non-convertible	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	No
31	If yes, specify non-compliant features	-	-	-

8.3. Annex 3 – Reconciliation of Capital Items in the Balance Sheet with banking Group Capital Items referred to in Annex 1 (PI-UPK) as of December 31, 2018

8.3.1. overview of differences between reports compiled for the needs of supervision of a banking group on a consolidated basis and consolidated financial reports compiled in accordance with the International Accounting Standards and/or International Financial Reporting Standards

Designation	Item	Consolidated balance sheet as disclosed in published financial statements	Consolidated balance sheet under regulatory method and scope of consolidation
A	**ASSETS**		
A.I	Cash and assets held with the central bank	73,992,039	73,992,039
A.II	Pledged financial assets	0	0
A.III	Receivables from derivatives	4,070	4,070
A.IV	Securities	137,514,720	137,371,941
A.V	Loans and receivables from banks and other financial organisations	21,037,537	21,021,161
A.VI	Loans and receivables from clients	191,448,642	191,448,642
A.VII	Change in fair value of hedged items	0	0
A.VIII	Receivables arising from hedging derivatives	0	0
A.IX	Investments in associated companies and joint ventures	0	0
A.X	Investments into subsidiaries	0	140,000
A.XI	Intangible investments	627,468	627,468
A.XII	Property, plant and equipment	6,047,384	6,047,365
A.XIII	Investment property	2,259,815	2,259,815
A.XIV	Current tax assets	1,650	1,650
A.XV	Deferred tax assets	840,967	840,967
A.XVI	Non-current assets held for sale and discontinued operations	659,003	659,003
A.XVII	Other assets	7,153,664	7,151,850
A.XVIII	**TOTAL ASSETS (positions under AOP 0001 to 0017 in consolidated balance sheet)**	**441,586,959**	**441,565,971**
P	**LIABILITIES**		
PO	**LIABILITIES**		
PO.I	Liabilities arising from derivatives	0	0
PO.II	Deposits and other liabilities to banks, other financial organisations and central bank	8,228,284	8,228,292
PO.III	Deposits and other liabilities to other clients	350,668,156	350,668,156
PO.IV	Liabilities arising from hedging derivatives	0	0
PO.V	Change in fair value of hedged items	0	0
PO.VI	Liabilities arising from securities	0	0
PO.VII	Subordinated liabilities	0	0
PO.VIII	Provisions	1,808,853	1,799,717
PO.IX	Liabilities under assets held for sale and discontinued operations	0	0
PO.X	Current tax liabilities	11,044	10,901
PO.XI	Deferred tax liabilities	14,677	14,677
PO.XII	Other liabilities	9,333,894	9,333,141
PO.XIII	**TOTAL LIABILITIES (positions under AOP 0401 to 0412 in consolidated balance sheet)**	370,064,908	370,054,884
	CAPITAL		
PO.XIV	Share capital	40,034,550	40,034,550
PO.XV	Own shares	0	0
PO.XVI	Profit	9,277,755	9,267,115
PO.XVII	Loss	1,481,701	1,481,701
PO.XVIII	Reserves	23,691,381	23,691,057
PO.XIX	Unrealized losses	0	0
PO.XX	Non-controlling participations	66	66
PO.XXI	**TOTAL CAPITAL (result of adding up or subtracting the following items from the consolidated balance-sheet: 0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420)**	**71,522,051**	**71,511,087**

	≥ 0		
PO.XXII	**TOTAL CAPITAL SHORTFALL (result of adding up or subtracting the following AOPs from the consolidated balance-sheet: 0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) < 0**	**0**	**0**
PO.XXIII	TOTAL LIABILITIES (result of adding up or subtracting the following AOPs from the consolidated balance-sheet: 0413 + 0421 - 0422)	**441.586.959**	**441.565.971**
V.P.	**OFF-BALANCE SHEET ITEMS**		
V.P.A.	Off-balance-sheet assets	496,783,044	496,783,244
V.P.P.	Off-balance-sheet liabilities	496,783,044	496,783,244

8.3.2. Itemizing of elements in Balance Sheet – 31.12.2018

Designation	Item	Balance sheet	References
A	**ASSETS**		
A.I	Cash and assets held with the central bank	73,992,039	
A.II	Pledged financial assets	0	
A.III	Receivables from derivatives	4,070	
A.IV	Securities	137,371,941	
	Additional value adjustments (-)	(2,885)	Section 12, paragraph 5
A.V	Loans and receivables from banks and other financial organisations	21,021,161	
A.VI	Loans and receivables from clients	191,448,642	
A.VII	Change in fair value of hedged items	0	
A.VIII	Receivables arising from hedging derivatives	0	
A.IX	Investments in associated companies and joint ventures	0	
A.X	Investments into subsidiaries	140,000	
	of which direct or indirect investments in banks and other financial sector entities	140,000	
A.XI	Intangible investments	627,468	
	Intangible assets, including goodwill (reduced by associated deferred tax liabilities) (-)	(627,468)	Section 13, paragraph 1, item 2) (No.10. PI-KAP)
A.XII	Property, plant and equipment	6,047,365	
A.XIII	Investment property	2,259,815	
A.XIV	Current tax assets	1,650	
A.XV	Deferred tax assets	840,967	
	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	(840,967)	Section 13, paragraph 1, item 3) (No.11. PI-KAP)
A.XVI	Non-current assets held for sale and discontinued operations	659,003	
A.XVII	Other assets	7,151,850	
	of which direct or indirect investments in banks and other financial sector entities in amount above 10% of capital of those entities	0	
A.XVIII	**TOTAL ASSETS (positions under AOP 0001 to 0017 in consolidated balance sheet)**	**441,565,971**	
P	**LIABILITIES**		
PO	**LIABILITIES**		
PO.I	Liabilities arising from derivatives	0	
PO.II	Deposits and other liabilities to banks, other financial organisations and central bank	8,228,292	

PO.III	Deposits and other liabilities to other clients	350,668,156	
PO.IV	Liabilities arising from hedging derivatives	0	
PO.V	Change in fair value of hedged items	0	
PO.VI	Liabilities arising from securities	0	
PO.VII	Subordinated liabilities	0	
	*Shares and other Tier 2 capital instruments and **subordinated liabilities**, in accordance with transitional provisions of the Decision on Capital Adequacy of Banks under section 28 and their share premium*	0	Section 27, paragraph 1, items 1) and 2) (No.41. PI-KAP)
PO.VIII	Provisions	1,799,717	
PO.IX	Liabilities under assets held for sale and discontinued operations	0	
PO.X	Current tax liabilities	10,901	
PO.XI	Deferred tax liabilities	14,677	
PO.XII	Other liabilities	9,333,141	
PO.XIII	**TOTAL LIABILITIES (positions under AOP 0401 to 0412 in consolidated balance sheet)**	370,054,884	
	CAPITAL		
PK.XIV	Share capital	40,034,550	
	of which: shares and other capital instruments which fulfill conditions stipulated in section 8 of the Decision on Capital Adequacy of Banks	16,817,956	Section 7, paragraph 1, item 1) and section 8. (No.1.1. PI-KAP)
	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	22,843,084	Section 7, paragraph 1, item 1) and section 8 (No.1.2. PI-KAP)
	Shares and other capital instruments which fulfill conditions stipulated in section 23 of the Decision on Capital Adequacy of Banks and their share premiums	373,510	Section 22, paragraph 1, items 1) and 2) (No.30. PI-KAP)
PK.XV	Own shares	0	
PK.XVI	Profit	9,267,115	
PK.XVII	Loss	1,481,701	Section 13, paragraph 1, item 1) (No.24. PI-KAP)
PK.XVIII	Reserves	23,691,057	
	Revaluation reserves and other unrealized gains	6,062,698	Section 7, paragraph 1, item 4) (No.4. PI-KAP)
	Reserves from profit and other reserves, except for reserves for general banking risks	14,633,760	Section 7, paragraph 1, item 5) (No.5. PI-KAP)
	Losses from preceding years and of the current period, as well as unrealized losses (-)	(125,483)	Section 13, paragraph 1, item 1) (No.24. PI-KAP)
PK.XIX	Unrealized losses	0	
PK.XX	Non-controlling participations	66	
	Non-controlling participations (minority interests) allowed in CET1	51	No.7. PI-KAP
PK.XXI	**TOTAL CAPITAL (result of adding up or subtracting the following items from the consolidated balance-sheet: 0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) ≥ 0**	71,511,087	
PO.XXII	**TOTAL CAPITAL SHORTFALL (result of adding up or subtracting the following AOPs from the consolidated balance-sheet: 0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) < 0**	0	
PO.XXIII	**TOTAL LIABILITIES (result of adding up or subtracting the following AOPs from the consolidated balance-sheet: 0413 + 0421 - 0422)**	**441,565,971**	
V.P.	**OFF-BALANCE SHEET ITEMS**		
V.P.A.	Off-balance-sheet assets	496,783,244	
V.P.P.	Off-balance-sheet liabilities	496,783,244	

8.3.3. Reconciliation of Capital Items in the Balance Sheet with banking Group Capital Items referred to in Annex 1 – 31.12.2018

No	Item	Amount	Balance sheet references
	Common Equity Tier 1: elements		
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	6,062,698	Section 7, paragraph 1, item 4)
5	Reserves from profit and other bank reserves, except for reserves for general banking risks	14,633,760	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	51	
8	**Common Equity Tier 1 capital before regulatory adjustments and deductibles** (sum of rows from 1 to 7)	**60,357,550**	
	Common Equity Tier 1 capital: regulatory adjustments and deductibles		
9	Additional value adjustments (-)	(2,885)	Section 12, paragraph 5
10	Intangible assets, including goodwill (net of deferred tax liabilities) (-)	(627,468)	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)	(840,967)	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%,		Section 13,

	where the bank deducts that exposure amount from the amount of CET1 items as an alternative to applying a risk weight of 1.250%		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 (-)	(1,607,184)	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	(516,584)	Section 13, paragraph 1, item 13)
28	**Total regulatory adjustments and deductibles from CET1 capital** (sum of rows from 9 to 27)	**(3,595,087)**	
29	**Common Equity Tier 1 capital** (difference between 8 and 28)	**56,762,463**	
	Additional Tier 1 capital: elements		
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	**Additional Tier 1 capital before deductibles** (30+31)	**373,510**	
	Additional Tier 1 capital: deductibles		
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	**Total deductibles from Additional Tier 1 capital** (sum of rows from 33 to 37)		
39	**Additional Tier 1 capital** (difference between 32 and 38)	373,510	
40	**Tier 1 capital** (sum of rows 29 and 39)	**57,135,973**	
	Tier 2: elements		
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	**Tier 2 capital before deductibles** (sum of rows from 41 to 43)		
	Tier 2 capital: deductibles		
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	**Total deductibles from Tier 2 capital** (sum of rows from 45 to 48)		
50	**Tier 2 capital** (difference between 44 and 49)		
51	**Total capital** (sum of rows 40 and 50)	**57,135,973**	

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

No.	Name	31.12.2018.	31.12.2017.
I	**CAPITAL**	**57,135,973**	**51,158,788**
1.	TOTAL COMMON EQUITY TIER 1 CAPITAL	**57,135,973**	50,785,278
2.	TOTAL ADDITIONAL TIER 1 CAPITAL	**56,762,463**	373,510
3.	TOTAL TIER 2 CAPITAL	**373,510**	-
II	**CAPITAL REQUIREMENTS**	**18,126,740**	**16,667,350**
1.	CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, DILUTION RISK AND SETTLEMENT/DELIVERY RISK TO FREE DELIVERIES	**15,201,385**	**13,441,005**
1.1.	Standardised Approach (SA)	**190,017,311**	168,012,566
1.1.1.	Exposures to central governments and central banks	17,238,573	11,225,896
1.1.2.	Exposures to territorial autonomies or local government units	3,455,107	3,240,431
1.1.3.	Exposures to public administrative bodies	49	-
1.1.4.	Exposures to multilateral development banks	-	-
1.1.5.	Exposures to international organisations	-	-
1.1.6.	Exposures to banks	4,452,209	3,610,139
1.1.7.	Exposures to companies	58,674,981	55,035,190
1.1.8.	Retail exposures	72,212,419	61,608,256
1.1.9.	Exposures secured by mortgages on immovable property	9,543,272	9,079,220
1.1.10.	Exposures in default	8,353,249	8,581,488
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	3,429,278	3,199,040
1.1.17.	Other items	12,658,174	12,432,906
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		
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	**226,706**	**507,992**
3.1.	Capital requirements for position, foreign exchange risk and commodities risk calculated under the Standardised Approach	226,706	507,992
3.1.1.	Capital requirement for position risk of debt securities	35,431	67,423
	of which capital requirement for position risk in respect of securitisation items	-	-
3.1.2.	Capital requirements for position risk arising from equity securities	147,067	133,645
3.1.3.	Additional capital requirement for large exposures from the trading book	-	-
3.1.4.	Capital requirement for foreign exchange risk	44,208	306,923
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	**2,698,649**	**2,718,353**

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	2,698,649	2,718,353
4.3.	Capital requirement for operational risk calculated under the Advanced Approach	-	-
III	**COMMON EQUITY TIER 1 CAPITAL RATIO (%)**	***25.05%***	***24.38%***
IV	**TIER 1 CAPITAL RATIO (%)**	***25.22%***	***24.56%***
V	**TOTAL CAPITAL RATIO (%)**	***25.22%***	***24.56%***