QUARTERLY REPORT OF KOMERCIJALNA BANKA AD BEOGRAD FOR Q1 2019

Belgrade, May 2019

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Belgrade, May 2019

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1. OVERVIEW OF KEY PERFORMANCE INDICATORS IN THE PERIOD BETWEEN 1 JANUARY AND 31 MARCH 2019

DESCRIPTION	31/03/19	28/02/19	31/01/19	2018	2017
INCOME STATEMENT (RSD 000)					
Profit/loss before tax	1,668,492	1,739,580	813,448	8,121,073	7,187,250
Net interest income	3,131,566	2,052,701	1,075,721	12,834,638	12,446,197
Net fee income	1,216,082	768,147	401,551	5,210,149	5,082,227
Operating expenses	2,563,317	1,684,212	818,195	10,473,783	10,833,081
Net income/expenses of impairment of financial assets not carried at fair value through the Income Statement	442,079	531,594	115,462	9,493	17,883

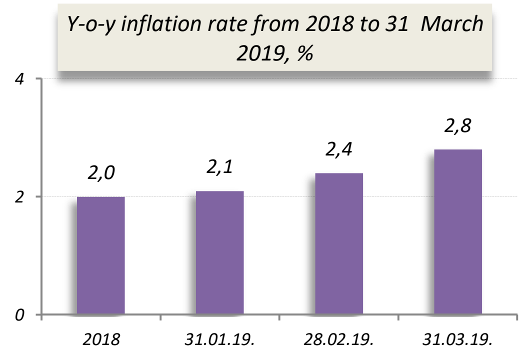
DESCRIPTION	31/03/19	28/02/19	31/01/19	2018	2017
BALANCE SHEET (RSD 000)					
Balance sheet assets	403,260,675	402,715,196	400,000,644	401,165,980	369,183,538
Off-balance sheet operations	466,020,108	466,204,880	456,651,535	457,820,051	474,428,780
RETAIL					
Loans[1]	93,529,637	92,586,003	92,351,187	92,033,605	81,712,222
Deposits[2]	262,592,960	261,847,801	261,268,608	260,296,411	241,210,420*
CORPORATE					
Loans	76,996,034	76,649,434	74,879,061	75,264,373	71,725,704
Deposits	47,449,645	46,533,881	44,787,037	49,879,580	41,371,592**

RATIOS	31/03/19	28/02/19	31/01/19	2018	2017
LOANS/DEPOSITS RATIO					
Gross loans/deposits	58.53%	59.49%	59.28%	58.35%	61.30%
Net loans/deposits	54.95%	55.91%	55.67%	54.76%	56.11%
CAPITAL (RSD 000)	68,813,271	69,262,520	68,101,889	67,560,513	63,260,055
Capital adequacy	27.95%	28.04%	28.35%	29.18%	27.89%
Number of employees	2,754	2,762	2,754	2,766	2,806
PROFITABILITY RATIOS					
ROA	1.7%	2.6%	2.4%	2.1%	1.9%
ROE – total capital	9.7%	15.2%	14.4%	12.6%	11.9%
Net interest margin on total assets	3.1%	3.1%	3.2%	3.4%	3.3%
Cost / income ratio	59.0%	59.7%	55.4%	58.0%	61.8%
Operating cash flow	4,307,020	3,363,483	1,895,066	9,379,217	9,231,864
Assets per employee (EUR 000)	1,241	1,234	1,226	1,227	1,111
Assets per employee (RSD 000)	146,427	145,806	145,244	145,035	131,569

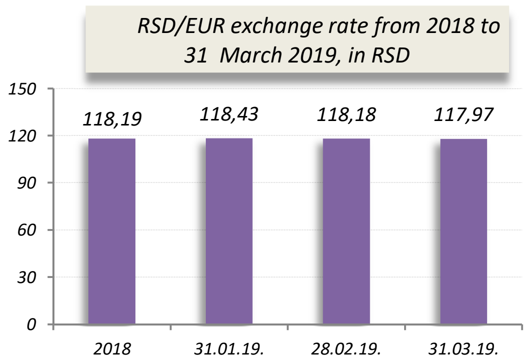
1 The position Loans (retail and corporate) does not include other loans and receivables
2 The position *Deposits* does not include other liabilities and assets received from credit lines
* As of 1 January 2018, micro client deposits have been transferred from the Corporate business function to the Retail business function, which is why the data published in the Annual Report differ – adjustments were made to ensure comparability between 2017 data and 2018 data
** See above

2. MACROECONOMIC BUSINESS CONDITIONS IN THE PERIOD BETWEEN 1 JANUARY AND 31 MARCH 2019

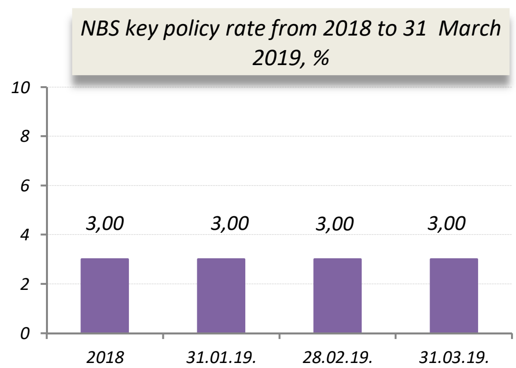
At the end of Q1 of the current year, y-o-y inflation rate trend was within the limits of the target rates in 2019 (3.0%±1.5p.p.). Y-o-y inflation rate at the end of Q1 2019 was 2.8%, while monthly inflation was 0.4%. The monthly inflation rate was determined by an increase in raw food and oil product prices and a decline in the cost of package holidays, apparel and footwear.



In Q1 of the current year, the exchange rate of the dinar against the euro did not fluctuate much. The exchange rate remained at approximately 118 dinars for one euro. At the end of Q1 2019, the dinar was appreciated by 0.2% relative to 2018 year-end. The National Bank of Serbia intervened on the interbank foreign exchange market (IBFEM) with a net purchase of EUR 35.0 million, which was significantly less than in the same period last year.



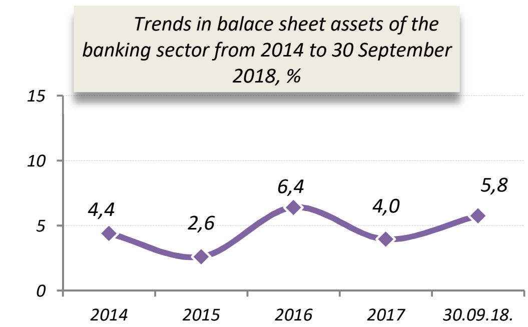
The National Bank of Serbia did not change the key policy rate (KPR) during Q1 2019. This decision was made in view of the projected inflation and its contributing factors in the coming months. In the coming months, inflation trends are expected to remain stable, within the limits of the target value (3.0%±1.5p.p.). However, trends in the international environment call for further caution in managing the monetary policy. The slowdown in economic growth and inflation also influences the monetary policies of the leading central banks, the FED and the European Central Bank. After a drop last year, oil price has had an upward trend since the beginning of this year and its future movement is uncertain.



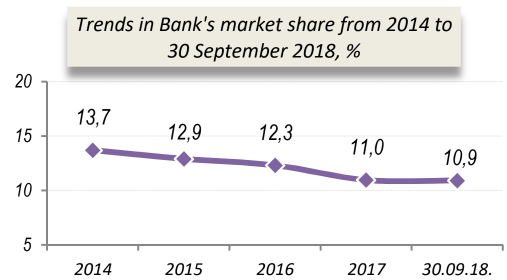
3. BANKING SECTOR AND BANK'S FINANCIAL POSITION

At the end of September 2018, banking sector in the Republic of Serbia comprises 28 banks in total, with 23,067 employees[3], total assets of 3,563.3 billion dinars and total capital of 681.6 billion dinars. The ten largest banks measured by balance sheet assets account for 78.6% of total assets of the sector. The net result before tax in the banking sector was 0.8% higher relative to the same period last year. According to the available unaudited financial statements, the Bank ranked third in the banking sector measured by the volume of balance sheet assets and fourth measured by profit before tax.

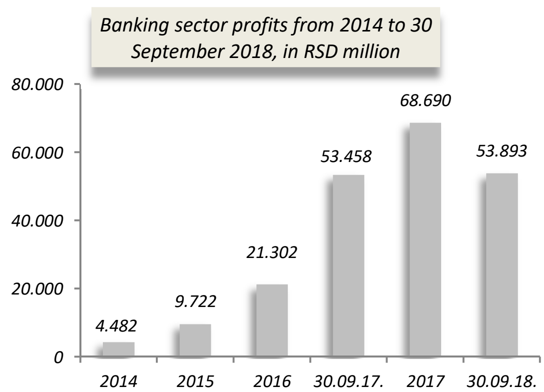
Serbia's banking sector saw an increase in balance sheet assets as at 30 September 2018 relative to 2017 year-end by 5.8%. As at 30 September 2018, total capital of the sector was 2.2% higher than at 2017 year-end. Capital adequacy of the banking sector at the end of Q3 2018 was 22.8%.



With its continued cautious management of the credit portfolio and high NPL coverage with impairment allowance, the Bank did not see a significant change in its share in banking sector assets in 2018.
As at 30 September 2018. the Bank's share in banking sector assets is 10.9%, while share in total banking sector capital in Serbia was 9.7%.



In 2018, the banking sector saw an increase in profitability relative to 2017. As at 30 September 2018, the sector generated a positive net financial result before tax of 53.9 billion dinars. During the observed period, 24 banks operated positively, with total profits of 55.5 billion dinars, while 4 banks had a negative result, with a total loss of 1.6 billion dinars.



3 NBS, Banking Sector in Serbia, Report for Q3 2018, January 2019

4. ORGANISATIONAL STRUCTURE AND BODIES OF THE BANK

The Board of Directors of the Bank was formed in accordance with the Law on Bank and the Shareholder Agreement between the Republic of Serbia and the Consortium of International Financial Institutions (EBRD, IFC, DEG, SwedFund). It consists of nine members, including the Chairperson, and three of those members are persons independent from the Bank. At least three members of the Bank's Board of Directors must have appropriate experience in the field of finance. Members of the Board of Directors are appointed by the General Meeting of Shareholders for a four-year term.

The powers of the Board of Directors of the Bank are set out in Article 73 of the Law on Bank and Article 27 of the Articles of Association of the Bank. Members of the Board of Directors of the Bank as at 31 March 2019 are the following:

NAME AND SURNAME	POSITION
Mila Korugić Milošević	Chairperson
Daniel Pantić, PhD	Member representing the Republic of Serbia
Marija Sokić	Member representing the Republic of Serbia
Aleksei Germanovich	Member representing the EBRD
Oleksandr Danyliuk	Member representing the EBRD
Javed Hamid	Member representing the IFC
Katarina Šušić	Independent member
Goran Knežević	Independent member

The Executive Board consists of the President of the Executive Board, the Deputy President of the Executive Board and minimum three members. The term in office of members of the Executive Board, including the President and the Deputy President, is four years of the date of appointment.

The powers of the Executive Board are set out in Article 76 of the Law on Banks and Article 31 of the Articles of Association of the Bank.

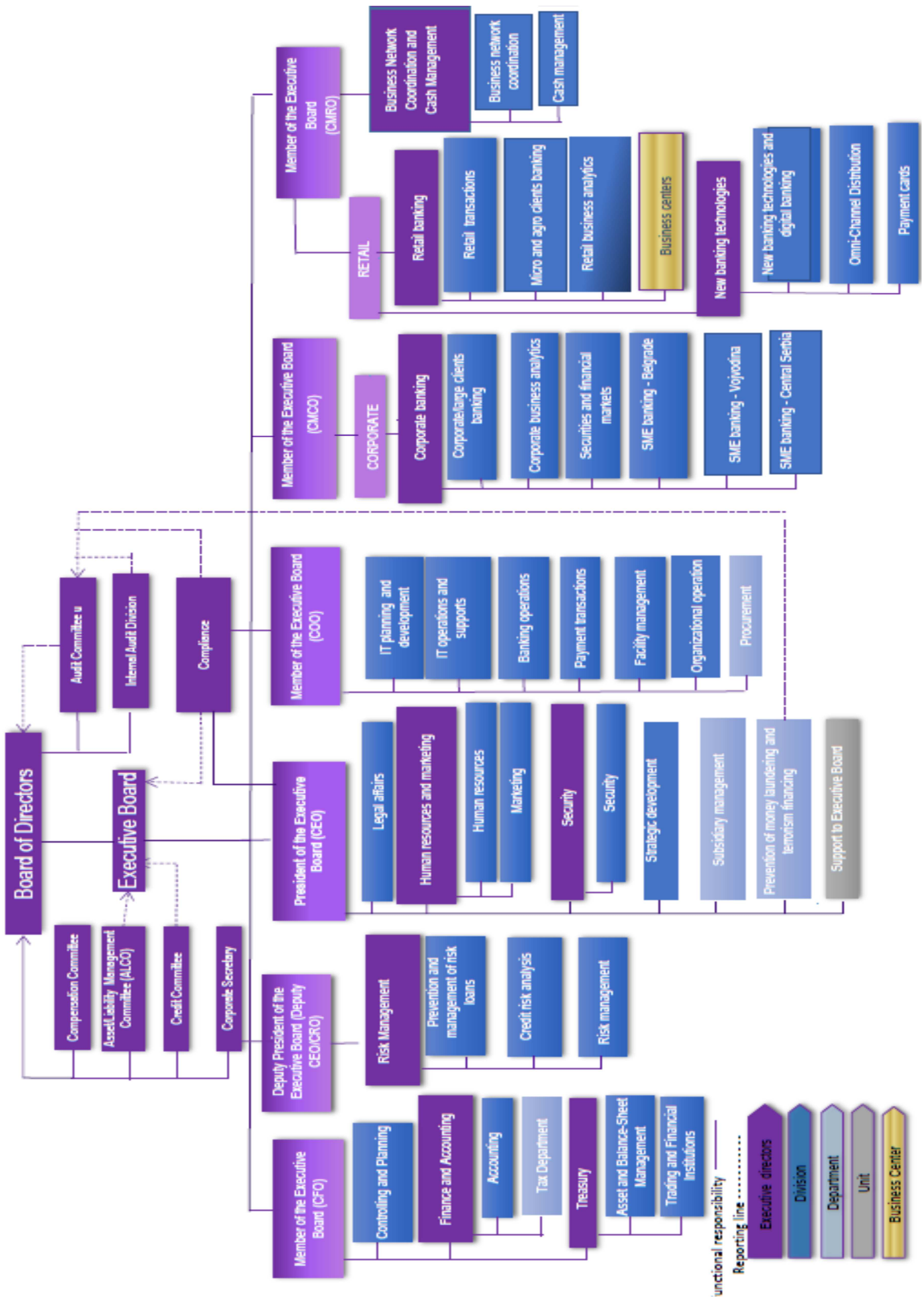
Members of the Executive Board of the Bank as at 31 March 2019 are the following:

NAME AND SURNAME	POSITION
Vladimir Medan, PhD	President
Slađana Jelić	Deputy President
Dragiša Stanojević	Member
Miroslav Perić, PhD	Member
Pavao Marjanović	Member

The Audit Committee of the Bank consists of three members, two of whom are members of the Board of Directors of the Bank with relevant experience in the field of finance. One member of the Audit Committee is a person independent from the Bank. Members of the Audit Committee are appointed for a four-year term.

The duties of the Audit Committee are set out in Article 80 of the Law on Banks and Article 34 of the Articles of Association of the Bank. Members of the Audit Committee as at 31 March 2019 are the following:

NAME AND SURNAME	POSITION
Daniel Pantić, PhD	Chairperson
Javed Hamid	Member
Milena Kovačević	Member



Note: Organisational chart of the Bank as at 31 March 2019

5. FINANCIAL POSITION AND PERFORMANCE OF THE BANK IN THE PERIOD BETWEEN 1 JANUARY AND 31 MARCH 2019

DESCRIPTION	31/03/19	28/02/19	31/01/19	2018	2017
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*** See above*

As at 31 March 2019, balance sheet assets of the Bank amounted to 403,260.7 million dinars and were 2,094.7 million dinars higher compared to 2018 year-end.

Off-balance sheet assets were increased by 1.8% in Q1 2019 and reached 466,020.1 million dinars at the end of March this year.

In the first three months of 2019, the Bank reduced its indebtedness through credit lines by 844.0 million dinars relative to the balance at 2018 year-end (-29.9%). In the same period, the Bank saw a decline in deposits (excluding other liabilities and credit lines) by 1,041.1 million dinars or 0.3%. The structure of this change was such that retail deposits were increased by 2,296.5 million dinars, while corporate deposits were reduced by 3,337.7 million dinars. These changes also include the effect of appreciation of the dinar against the euro (0.2%) and depreciation against the Swiss franc (0.4%) and the US dollar (1.5%) from the beginning of the year to the end of Q1 2019.

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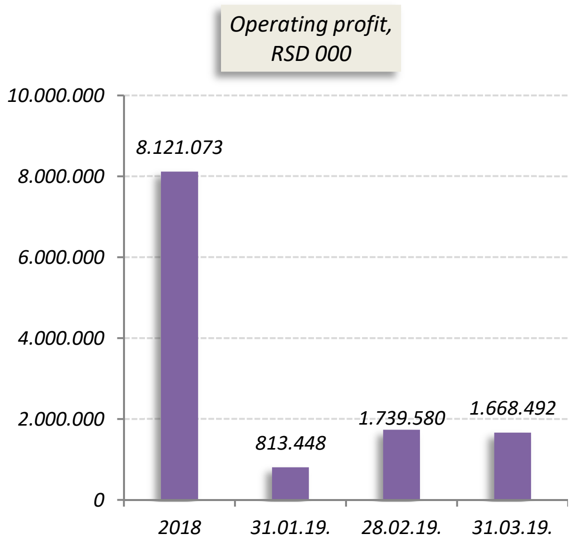
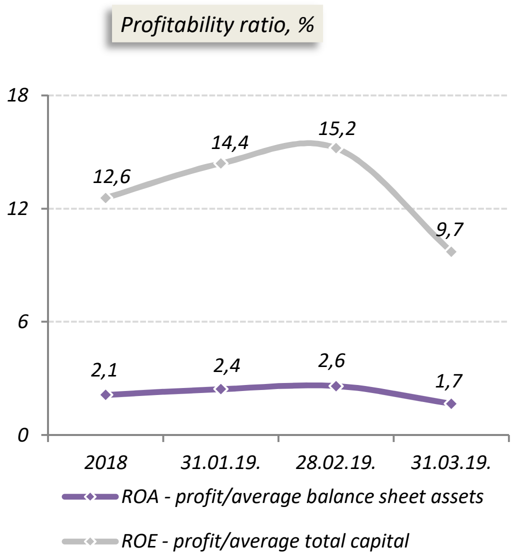




The loan portfolio clean up carried out in the past two years has influenced the trends of loan impairment allowance as and adequate level of NPL (non-performing loan) coverage with impairment allowance. In the first three months of 2019, the Bank earned lower profits than in the same period last year. Profit in the period between 1 January and 31 March 2019 was 1,668.5 million dinars - a decline of 318.4 million dinars (-16.0%) compared with the same period last year. As a result of this profit, in the first three months 2019, the Bank generated a return on total capital of 9.7% and a return on balance sheet assets of 1.7%.

The trends in profits in Q1 2019 relative to the same period last year was due to an increase in other expenses by 723.0 million dinars, an increase in other income by 218.8 million dinars and net income from of impairment of financial assets not carried at fair value in the amount of 442.1 million dinars, which is an increase of 211.0 million dinars. Depreciation expenses also increased by 104.0 million dinars which is largely the result of the application of the new IFRS 16 standard (application as of January 1, 2019), which largely equates rent with leasing and according to which the rent expenses (except for short term rent agreements) are recorded on depreciation costs.

As a result of the increased volume of operations, coupled with an insignificant change in the number of employees in the first three months of 2019, assets per employee at the Bank were increased from 145.0 million dinars (31 December 2018) to 146.4 million dinars at the end of Q1 2019.

At the end of Q1 of the current year, the cost-to-income ratio (CIR) was 59.0%, while at 2018 year-end it was 58.0%.

5.1. Retail Business

In Q1, retail business continued with the positive trends seen in the previous period and achieved significant results on most indicators.

Loans

The focus was on lending growth, net income generation and market share preservation.

In Q1 2019, the Bank disbursed 10.5 billion dinars in loans, which was 3.0% more than in the same period last year 2018. Lending growth was achieved through constant innovation of available products and improvement of procedures and technological solutions.

Disbursement was higher across all segments of operations, except cash loans, where it remained approximately the same as in Q1 2018.

The highest increase in loan disbursement was seen in **home loans** (22.0%), as a result of the attractive product offering and significant demand in the real estate market. There has been a noticeable upward trend in the market in loans not insured with the National Mortgage Insurance Corporation (NMIC). Given the favourable market trends regarding interest rates, the Bank has also been applying a customer retention policy in order to preserve the quality and the amount of its portfolio. As at 28 February 2019, the Bank's market share was 10.3%.

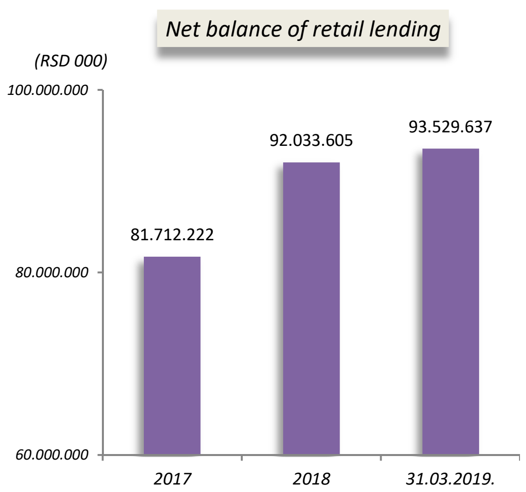
In the **cash loan** segment, disbursement was approximately the same as in Q1 last year. As from 1 January 2019, pursuant to a Decision of the NBS, borrowing through cash loans has been limited to a maximum term of 95 months, which caused stagnation in loan disbursement, since average loan amounts were reduced. It is a segment with heavy competition, where the offering is based on high amounts and bills of exchange as collateral, at favourable interest rates. Furthermore, the offering is increasingly based on personalised offers targeting specific customer groups, especially customers with higher income. Much attention is also paid to loans to pensioners, as they account for a significant share of total customers. The Bank continued increasing slightly its market share in the cash loan segment, reaching 7.5% as at 28 February 2019.

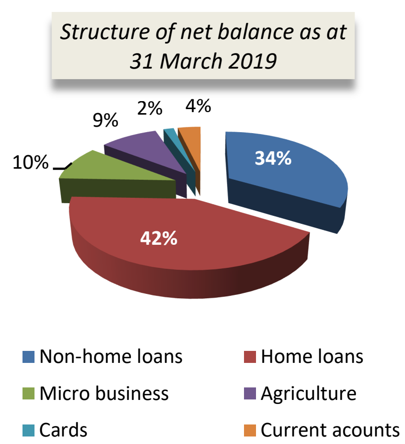
In **agribusiness**, loan disbursement was 10.0% higher. In Q1, the Bank traditionally grants loans from its own funds, without subsidised loans. The Bank will enrich its offering by introducing a special credit line for the purchase of farmland, with repayment terms of up to 15 years, providing clients with additional flexibility in terms of annuity optimisation. We have retained our market share at 13.7%.

Disbursement in the **micro business** segment was increased by 7.0% owing to regular and specially designed promotional products, which improved the quality of our offering. For its top clients, the Bank has introduced predefined loans, for maximum convenience and a swift loan granting process. This segment includes sole traders and micro companies. In the sole trader segment, the Bank increased its market share to 9.3% as at 28 February 2019.

During of Q1 the largest share of disbursed loans was that of cash loans (accounting for 46.0% of total disbursements), followed by micro business loans (27.0%), agricultural loans (14.0%) and home loans (13.0%).

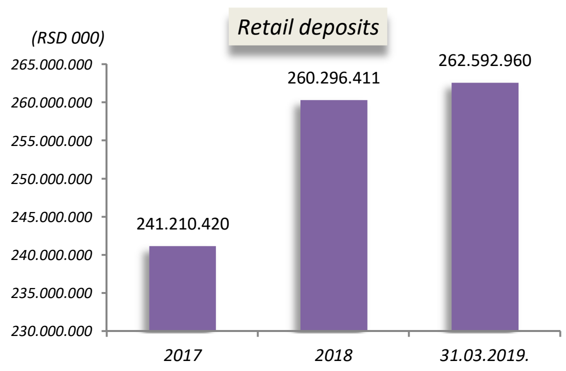
All this resulted in an increase in the net balance of retail lending by 1.5 billion dinars relative to the balance as at 31 December 2018. In the structure of the net balance, the share of home loans has been declining (42.0%), while the shares of other, more profitable products have been increasing (58.0%).





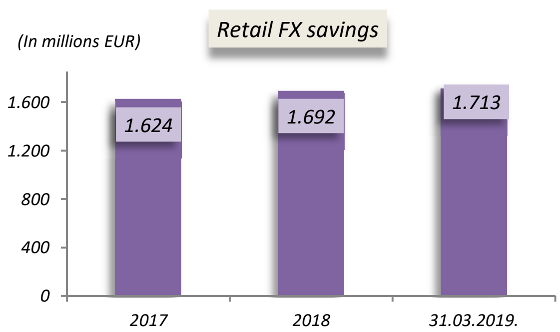
Deposits[4]

In Q1 2019, retail deposits were increased by 2.3 billion dinars or 1.0%, continuing the stable trend of deposit growth.



In the first two months of 2019, total FX retail deposits in Serbia's banking market (excluding micro companies) increased by 205 million euros, while the Bank, with the growth of 16.0 million euros, retained its position as market leader, with a market share of 18.2%.

Looking at classic foreign exchange retail savings, it increased by 21.0 million euros during the first quarter.



* FX savings presented here do not include special-purpose FX accounts (pensioners) and sole traders

In the structure of retail FX savings, the share of time deposits with a term of 12 months or longer has declined slightly to 32.0%, while the share of sight deposits has increased to 64.0%. Most of the savings deposits are up to 50,000 euros (more than 99% in terms of number and 75% measured by amounts).

After several years of declining, borrowing interest rates on retail FX savings are currently stagnating (as at 31 March 2019 on the level of 0.24%). In the near future, borrowing interest rates are expected to continue stagnating or see a modest increase. The Bank is still recognised by customer as an institution of highest trust and deposits continue increasing constantly.

Other products

Account sets have continued conquering the market, with approx. 17,000 account sets opened in Q1 2019, of which some 2,000 sets were opened by the youngest clients (18-27 years), laying the foundation for business security in the future. Clients currently hold approx. 950,000 payment cards, 50% of which are regularly used.
Account sets for micro clients have continued with the positive trend observed last year, with 1,600 more clients opening an account set in Q1 2019.

[4] The position *Deposits* does not include other liabilities and funds received through credit lines

Digitalisation of operations

We have implemented a CRM tool in the digital channels (e-banking), which, upon obtaining clients' approval, analyses interaction with them and offers them products and services tailored to their needs and means.

Business network

We operate in the retail segment through 201 outlets, which makes us the market leader in terms of coverage and accessibility to customers. Customers have at their disposal 276 ATMs (5 more than as at 31 December 2018) and approx. 13,800 POS terminals (approx. 200 more than as at 31 December 2018), which also makes us one of the market leaders. Taking into account the needs of its customers, the Bank has continued its efforts to improve customer experience by redesigning its outlets, relocating to new offices, adapting its working hours etc.

Profitability

As a result of all activities that have been undertaken, in Q1 the retail segment generated net interest and fee income of 2,447.0 million dinars, which was an increase of 6.0% compared with the same period last year.

5.2. Corporate Business

Market – Main Trends

In 2019, the downward trend of dinar interest rates continued, notwithstanding the fact that the National Bank of Serbia stabilised the key policy rate and interest rates on FX-denominated loans were lowered. Another contributing factor to the decline in interest rates on EUR-indexed loans was the strong decrease of country risk and less stringent monetary policy of the European Central Bank.

The standards applied by banks to newly-approved loans to corporate customers, which had been lowered in 2018, remained unchanged in 2019, especially in relation to SMEs and, to a lesser extent, large companies. In terms of maturity and currency, standards have been lowered for short-term and long-term dinar-denominated corporate loans, as well as short-term FX-indexed corporate loans. Banks are also increasingly willing to accept risk when borrowing to corporate customers (especially with regard to loan collateralisation).

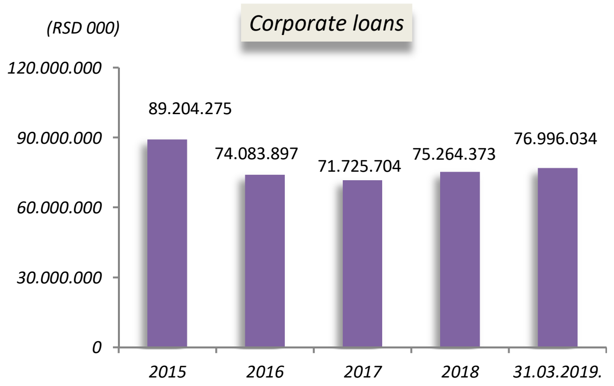
At banking sector level, net gross loans are lower compared to 2018 year-end (total ending to companies and public enterprises declined by 0.45%, or 5.3 billion dinars).[5]

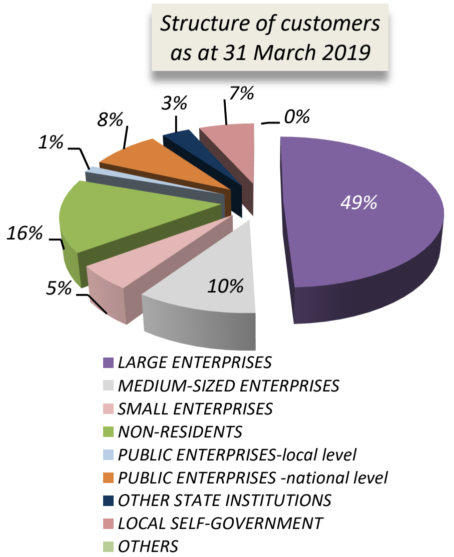
Loans[6]

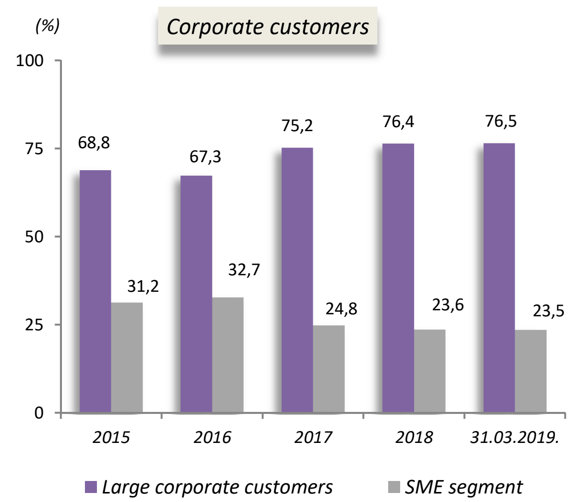
Disbursement of newly-approved loans in 2019 was 2.97 billion dinars or 40.2% higher than in the same period of 2018 (1.2 billion dinars higher in the large corporate segment and 1.8 billion dinars higher in the SME segment). In the Bank's portfolio, the share of large corporate customers increased from 76.4% (at 2018 year-end) to 76.5%.

5 NBS, Consolidated Banking Sector Balance, February 2019

6 The position Loans and Deposits does not include other investment







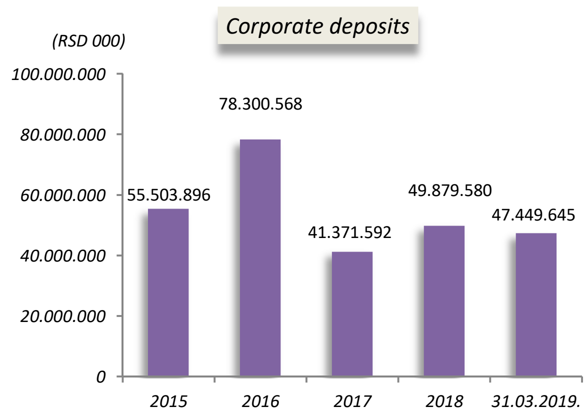
The interest rate on EUR-indexed loans is still significantly lower than that on dinar-denominated loans, which, given the stable exchange rate, pushed the market towards greater demand for FX-indexed loans relative to dinar loans. As a result, the share of dinar loans in the portfolio at the end of Q1 2019 dropped to just 8.1%.

As regards competition, the most active banks in Q1 2019 were Banca Intesa a.d. Beograd, UniCredit banka Srbija a.d. Beograd, Raiffeisen banka a.d. Beograd, Societe Generale Banka a.d. Beograd, with the occasional market promotions by ProCredit a.d. Beograd and Erste banka a.d. Novi Sad. It is evident that all competitors have applied a more flexible approach (interest rates, maturities, required collateral) when approving loans.

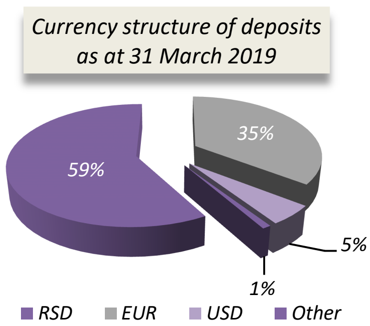
Deposits [7]

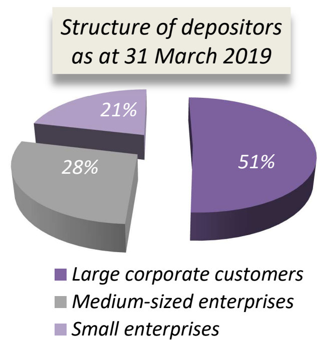
The high share of transaction deposits, which account for 73.7% of total corporate deposits, has resulted in lower interest expenses and has positive effects on the Bank's business result. The amount of corporate deposits in 2018 was also influenced by the Bank's decision to record deposits by micro clients as retail deposits starting from 1 January 2018.

7 The position Deposits does not include other liabilities and funds received through credit lines

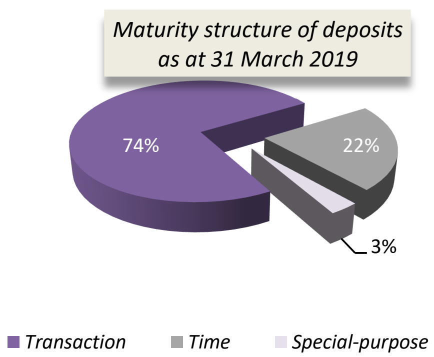


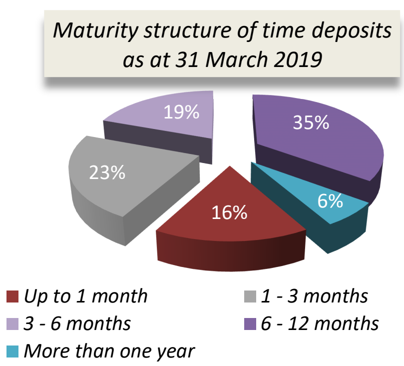
Note: At the end of 2017, 11.2 billion dinars in deposits by micro clients was transferred from Corporate to Retail, which accounts for the difference compared to the previous annual report; the amount of corporate deposits at 2016 year-end was influenced by one single deposit.





Note: The structure of deposits is presented according to the internal segmentation of customers.





5.3. Asset Management – Treasury

Based on the Bank's strategic orientation, the activities of the Treasury business function are focused on active management of assets and liquidity, while at the same time also ensuring normal functioning of the Bank and its customers and compliance with all regulatory requirements.

The environment in which the Treasury function operated in Q1 2019 was marked by declining repo rates on reverse repo operations with the NBS, a continued downward trend in yield on domestic government securities, heavy intervening of the NBS in the foreign exchange market and negative interest rates on EUR and CHF in foreign markets. Given the available assets, this constituted a major challenge in terms of liquidity management.

Compared with the same period of 2018, financial performance was improved by 1.44%.

In Q1 2019, the Bank's liquidity position was stable, and liquid assets were invested mainly in government securities of the Republic of Serbia.

The Bank's high participation in primary auctions of government securities of the Republic of Serbia was accompanied by a very active participation in the secondary market. Taking into account the maturity structure of funding, most of short-term liquidity was invested in short-term loans in the interbank market.

The Treasury function also had intensive activity in the foreign exchange market.

As of March 2019, the final tranche of the EBRD credit line was repaid and the Bank currently has no drawn bilateral credit lines.
At the end of 2018, the Bank signed a Guarantee Facility Agreement with the European Investment Fund (EIF) within the framework of the WB EDIF programme. Disbursement is expected to begin in May 2019.
The balance of the tripartite credit lines signed with the NBS as the Agent is 16.73 million euros.

6. BALANCE SHEET AS AT 31 March 2019

6.1. Assets of the Bank as at 31 March 2019

(RSD 000)

NO.	DESCRIPTION OF BALANCE SHEET POSITION	31 March 2019	31 December 2018	INDEX
1	2	3	4	5=3/4
1	Cash and assets with the central bank	58,026,544	63,595,710	91.2
2	Pledged financial assets	-	-	-
3	Receivables arising from derivatives	1,384	4,070	-
4	Securities	138,263,235	133,177,598	103.8
5	Loans to and receivables from banks and other financial organisations	16,417,795	18,477,729	88.9
6	Loans to and receivables from customers	170,881,986	167,545,674	102.0
7	Changes in fair value of hedged items	-	-	-
8	Receivables arising from derivatives intended for hedging	-	-	-
9	Investment in affiliates and joint ventures	-	-	-
10	Investment in subsidiaries	2,611,859	2,611,859	100.0
11	Intangible assets	716,817	557,051	128.7
12	Property, plant and equipment	6,787,566	5,619,078	120.8
13	Investment property	1,886,742	1,896,347	99.5
14	Current tax assets	-	-	-
15	Deferred tax assets	1,444,664	840,967	171.8
16	Non-current assets held for sale and assets from discontinued operations	227,630	227,630	100.0
17	Other assets	5,994,453	6,612,267	90.7
	TOTAL ASSETS (1 to 17)	**403,260,675**	**401,165,980**	100.5

The Bank's balance sheet assets at the end of Q1 2019 were increased by 2,094.7 million dinars or 0.5%.
The largest increase in the structure of the balance sheet positions presented above was that of securities, which was increased during Q1 2019 by 5,085.6 million dinars or 3.8%. The bulk of this increase can be

attributed to the increase in long-term dinar-denominated government securities carried at fair value through the income statement – T-bonds of the Republic of Serbia, which increased by 2,958.8 million dinars.

Loans to and receivables from customers were decreased by 2,059.9 million dinars or 11.1%, while loans to and receivables from banks and other financial organisations were increased by 3,336.3 million dinars or 2.0%. Total loans and advances to and receivables from customers and banks amounted to 187,299.8 million dinars, which was 46.4% of the Bank's total balance sheet assets as at 31 March 2019.

In the first three months of the current year, the position Cash and Assets with the Central Bank saw a decrease of 5,569.2 million dinars or 8.8%. The decrease in this position was mainly due to the decline in the balance of transfer accounts by 4,126.2 million dinars, the decrease of dinar-denominated cash in hand by 1,338.9 million dinars and the decrease in statutory FX reserve by 1,413.5 million dinars. Other cash positions (FX-denominated cash in hand and other FX cash) were increased by 1,309.4 million dinars.

6.2. Liabilities of the Bank as at 31 March 2019

(RSD 000)

NO.	DESCRIPTION OF BALANCE SHEET POSITION	31 March 2019	31 December 2018	INDEX
1	2	3	4	5=3/4
1	Liabilities arising from derivatives	-	-	-
2	Deposits and other financial obligations to banks, other financial organisations and the central banks	4,138,812	5,662,748	73.1
3	Deposits and other financial obligations to other customers	316,912,414	317,229,084	99.9
4	Liabilities arising from hedging derivatives	-	-	-
5	Changes in fair value of hedged items	-	-	-
6	Liabilities arising from securities	-	-	-
7	Subordinated liabilities	-	-	-
8	Provisions	2,247,484	1,653,663	135.9
9	Liabilities arising from non-current assets held for sale and discontinued operations	-	-	-
10	Current tax liabilities	-	-	-
11	Deferred tax liabilities	530,332	-	-
12	Other liabilities	10,618,362	9,059,972	117.2
	TOTAL OBLIGATIONS (1 to 12)	**334,447,404**	**333,605,467**	100.3
	CAPITAL			-
13	Equity	40,034,550	40,034,550	100.0
14	Own shares	-	-	-
15	Profit	10,716,183	9,047,691	118.4
16	Loss	-	-	-
17	Reserves	18,062,538	18,478,272	97.8
18	Unrealised loss	-	-	-
19	Non-controlling interests	-	-	-
20	**TOTAL CAPITAL (13 to 19)**	**68,813,271**	**67,560,513**	101.9
	TOTAL LIABILITIES (1 to 19)	**403,260,675**	**401,165,980**	100.5

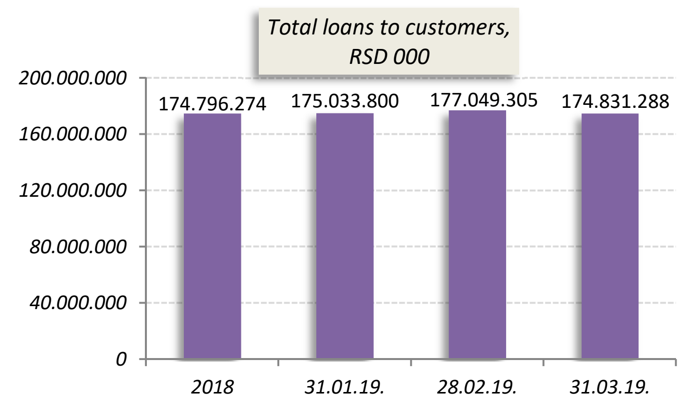
Total obligations of the Bank at the end of Q1 2019 amounted to 334,447.4 million dinars and accounted for 82.9% of total liabilities (31 December 2018: 83.2%). At the same time, total capital was 68,813.3 million dinars and accounted for 17.1% of total liabilities (31 December 2018: 16.8%). Total obligations increased relative to the end of the previous year by 841.9 million dinars or 0.3%, while total capital increased by 1,252.8 million dinars or 1.9%.

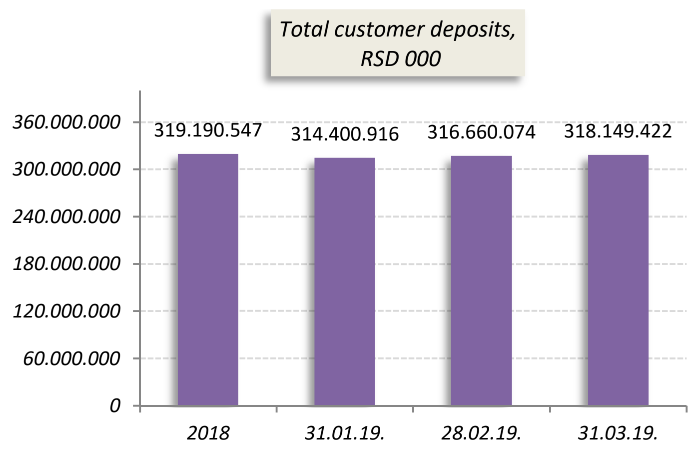
The position Deposits and Other Financial Obligations to Customers decreased during the reporting period by 316.7 million dinars or 0.1%, while the position Deposits and Other Financial Obligations to Banks was reduced compared with the end of the previous year by 1,523.9 million dinars or 26.9%. The position Other Liabilities increased by 1,558.4 million dinars or 17.2%. The position Provisions increased in Q1 2019 by 593.8 million dinars as a result of an increase in provisions for liabilities.

In the first three months of 2019, foreign credit lines continued declining, with the net equivalent of the decline equalling 843.9 million dinars. Thus, the balance of these liabilities in dinar equivalent as at 31 March 2019 was 1,974.0 million dinars.

In the structure of balance sheet liabilities, total deposits and other financial obligations to banks and customers amounted to 321,051.2 million dinars, accounting for 79.6% of total balance sheet liabilities. These liabilities were reduced by 1,840.6 million dinars or 0.6% relative to the end of the previous year.

6.3. Loans to Customers and Customer Deposits as at 31 March 2019





The most significant category of balance sheet assets, loans to customers (excluding other loans and receivables), saw a mild increase of 35.0 million dinars. At the end of Q1 2019, corporate loans reached 76,996.0 million dinars, which was an increase of 2.3% compared to 2018 year-end. The total amount of retail loans was 93,529.6 million dinars, which was a 1.6% increase relative to the end of the previous year. Loans to banks and other financial organisations reached 4,305.6 million dinars at the end of Q1 2019, which was a decrease by 42.6%.

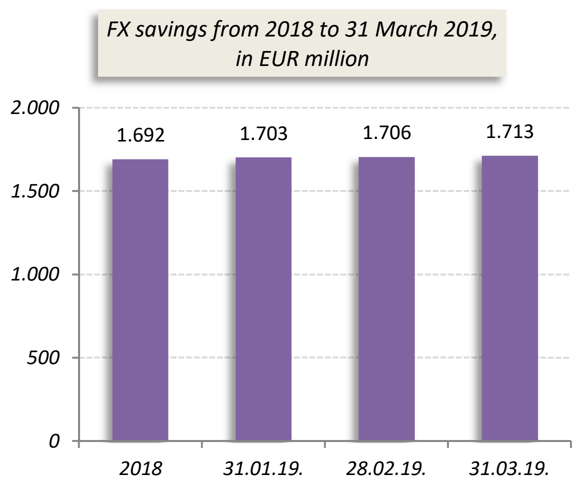
Total loans to banks, other financial organisations and customers as at 31 March 2019 amounted to 174,831.3 million dinars and saw a negligible increase relative to the end of the previous year.

(RSD 000)

NO.	DESCRIPTION	BALANCE AS AT 31 MARCH 2019	BALANCE AS AT 31 DECEMBER 2018	INDEX
1	2	3	4	5= (3:4)*100
I	LOANS TO CUSTOMERS (1+2+3)	174,831,288	174,796,274	100.0
1.	Corporate	76,996,034	75,264,373	102.3
2.	Retail	93,529,637	92,033,605	101.6
3.	Banks and financial organisations	4,305,618	7,498,296	57.4
II	CUSTOMER DEPOSITS (1+2+3)	318,149,422	319,190,547	99.7
1.	Corporate	47,449,645	49,879,580	95.1
2.	Retail	262,592,960	260,296,411	100.9
3.	Banks and financial organisations	8,106,817	9,014,556	89.9

NOTE:
- Granted loans excluding other investments and receivables, received deposits excluding other liabilities and funds received in the form of credit lines.
- As of 1 January 2018, micro client deposits have been transferred from the Corporate business function to the Retail business function, which is why the data published in the Annual Report differ – adjustments were made to ensure comparability between 2017 data and 2018 data

The change in deposits by banks, other financial organisations and customers (excluding other liabilities and credit lines) in Q1 2019 was the result of increased retail deposits, lower corporate deposits and lower deposits by banks and other financial organisations. Retail deposits increased during the observed period by 2,296.5 million dinars in dinar equivalent, or 0.9%, corporate deposits were decreased by 2,429.9 million dinars in dinar equivalent, or 4.9%, while deposits by banks and other financial organisations were decreased by 907.7 million dinars in dinar equivalent, or 10.1%.



Enjoying the reputation of a safe and stable bank in the Serbian market, the Bank managed to increase its retail savings deposits during the observed period by 21.0 million euros or 1.2%. Notwithstanding the declining borrowing interest rates, both in the banking sector as a whole and at the Bank, FX savings deposited with the Bank increased in Q1 2019 and reaching 1,713.0 million euros. Depositors' trust has enabled the Bank to remain the leader in the Serbian banking sector in terms of the volume of FX savings and in terms of image and recognisability.

6.4. Off-Balance Sheet Items in 2019

(RSD 000)

NO.	DESCRIPTION	BALANCE AS AT 31 MARCH 2019	BALANCE AS AT 31 DECEMBER 2018	INDEX
1	2	3	4	5=(3:4)*100
1	TRANSACTIONS ON BEHALF AND FOR THE ACCOUNT OF THIRD PARTIES	4,196,099	4,228,635	99.2
2	ASSUMED FUTURE COMMITMENTS	45,348,456	44,069,612	102.9
3	GUARANTEES RECEIVED FOR FUTURE COMMITMENTS	0	0	-
4	DERIVATIVES	589,860	1,772,919	33.3
5	OTHER OFF-BALANCE SHEET ITEMS	415,885,693	407,748,884	102.0
	TOTAL	**466,020,108**	**457,820,051**	101.8

Total off-balance sheet assets of the Bank in Q1 2019 increased by 8,200.1 million dinars compared to 2018 year-end.

As at 31 March 2019, assumed future commitments amounted to 45,348.5 million dinars in total, which was an increase by 1,278.8 million dinars or 2.9% relative to the end of the previous year, mainly due to an increase in issued guarantees and other sureties.

As at 31 March 2019, derivatives on off-balance sheet records saw a decline of 1,183.1 million dinars relative to 2018 year-end.

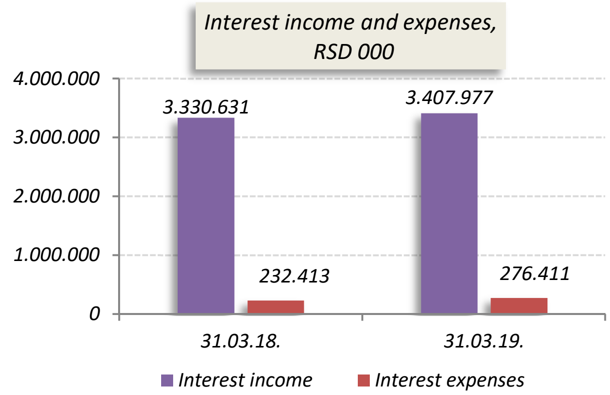
Other off-balance sheet items increased by 8,136.8 million dinars or 1.8% relative to the end of the previous year.

7. INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2019

(RSD 000)

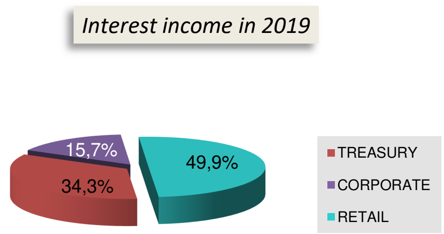
NO.	DESCRIPTION OF BALANCE SHEET POSITION	31 March 2019	31 March 2018	INDEX
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	3,407,977	3,330,631	102.3
1.2.	Interest expenses	(276,411)	(232,413)	118.9
1.	**Net interest income/expenses**	**3,131,566**	**3,098,218**	101.1
2.1.	Fee and commission income	1,586,033	1,615,670	98.2
2.2.	Fee and commission expenses	(369,951)	(414,110)	89.3
2.	**Net fee and commission income/expenses**	**1,216,082**	**1,201,560**	101.2
3.	Net gain/loss arising from change in the fair value of financial instruments	23,703	44,982	52.7
4.	Net gain/loss arising from reclassification of financial instruments	-	-	-
5.	Net gain/loss arising from derecognition of financial instruments carried at fair value	58,369	37,394	156.1
6.	Net hedging gain/loss	-	-	-
7.	Net exchange gain/loss and gain/loss arising from contractual currency clauses	5,088	(9,421)	(54.0)
8.	Net gain/loss arising from impairment of financial assets not carried at fair value through the Income Statement expense	442,079	231,041	191.3
9.	Net gain/loss arising from derecognition of financial instruments carried at amortisation value	-	-	-
10.	Net gain/loss arising from derecognition of investment in affiliates and joint ventures	-	-	-
11.	Other operating income	32,302	38,451	84.0
12.	**TOTAL NET OPERATING INCOME**	**4,909,189**	**4,642,225**	105.8
13.	**TOTAL NET OPERATING EXPENSES**			-
14.	Costs of salaries, benefits and other personal expenses	(1,080,986)	(1,103,867)	97.9
15.	Amortisation cost	(249,205)	(145,205)	171.6
16.	Other income	291,436	72,670	401.0
17.	Other expenses	(2,201,942)	(1,478,977)	148.9
18.	**PROFIT BEFORE TAX**	**1,668,492**	**1,986,846**	84.0
19.	**LOSS BEFORE TAX**			
20.	Income tax	-	-	
21.	Deferred tax gain	-	-	
22.	Deferred tax loss	-	-	
23.	**PROFIT AFTER TAX**	**1,668,492**	**1,986,846**	84.0
24.	**LOSS AFTER TAX**			
25.	Net profit from discontinued operations	-	-	
26.	Net loss from discontinued operations	-	-	
27.	**RESULT OF THE PERIOD - PROFIT**	**1,668,492**	**1,986,846**	84.0
28.	**RESULT OF THE PERIOD - LOSS**			
29.	Profit belonging to the parent entity			
30.	Profit belonging to non-controlling owners			
31.	Loss belonging to the parent entity			
32.	Loss belonging to non-controlling owners			
33.	Earnings per share			
34.	Basic earnings per share			
35.	Diluted earnings per share			

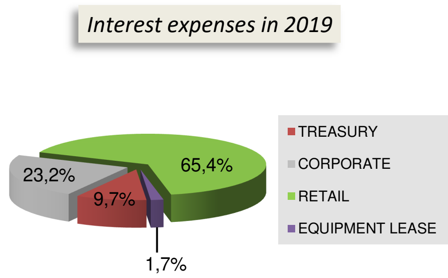
7.1. Interest Income and Expenses



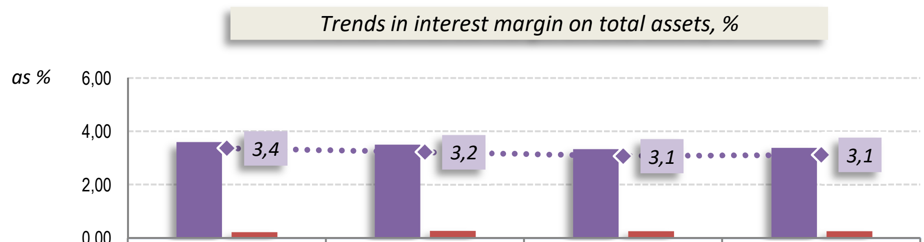
In Q1 2019, the Bank generated interest income of 3,131.6 million dinars – an increase of 1.1% from the same period last year.

Relative to Q1 last year, interest income was higher by 77.3 million dinars or 2.3%, while interest expenses were increased by 44.0 million dinars or 18.9%.





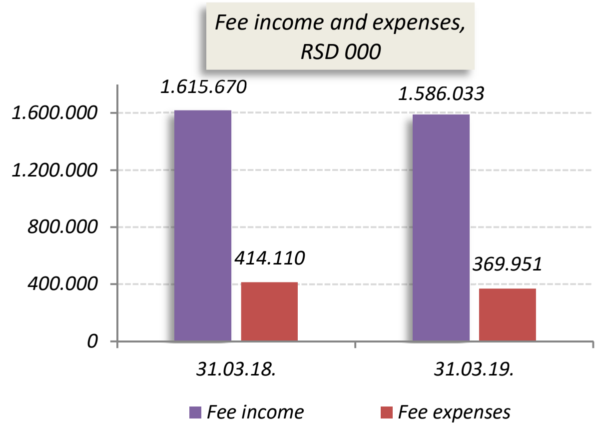
The dominant share in the structure of interest income was that of interest income from retail operations (1,701.8 million dinars or 49.9%). The structure of interest expenses also comprises mainly interest on retail deposits (180.7 million dinars or 65.4%), which is mostly attributable to interest expenses for collected FX savings.



	2018	*January*	*February*	*March*
Average lending interest rate	*3,60*	*3,51*	*3,34*	*3,39*
Average borrowing interest rate	*0,24*	*0,29*	*0,27*	*0,28*
Average interest rate	*3,37*	*3,22*	*3,07*	*3,12*

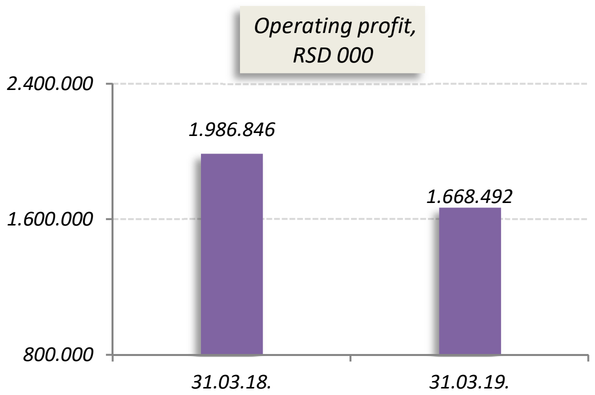
The average lending interest rate at the end of Q1 2019 was 3.4%, while the average borrowing interest rate was 0.3%, which means the Bank's average interest margin in Q1 2019 was 3.1%.

7.2. Fee Income and Expenses



In Q1 2019, compared with the same period last year, banking fee and commission income was lower by 29.6 million dinars or 1.8%. At the same time, fee and commission expenses were also reduced by 44.2 million dinars or 10.7%.
Net fee and commission income in Q1 2019 was 1,216.1 million dinars and was 14.5 million dinars higher than in the same period last year.

7.3. Operating Profit



Between 1 January and 31 March 2019, the Bank generated an operating profit of 1,668.5 million dinars – a decrease by 318.4 million dinars relative to the same period last year, or 16.0% down.

The operating profit generated in Q1 2019 meant the Bank had a return on equity of 9.7% and a return on average assets of 1.7%.

7.4. Key Performance Indicators under the Law on Banks

NO.	DESCRIPTION	STATUTORY REQUIREMENT	31 MARCH 2019	2018
1.	CAPITAL ADEQUACY RATIO (CAPITAL / RISK WEIGHTED ASSETS); *COMBINED BUFFER REQUIREMENT	MIN 8%+cb*	27.95%	29.18%
2.	RATIO OF INVESTMENT IN NON-FINANCIAL SECTOR ENTITIES AND FIXED ASSETS	MAX 60%	15.38%	13.18%
3.	LARGE EXPOSURE RATIO	MAX 400%	40.07%	39.77%
4.	FOREIGN EXCHANGE RISK RATIO	MAX 20%	3.25%	1.87%
5.	LIQUIDITY RATIO (monthly, last day of the month)	MIN 0.8	4.36	3.86

8. DESCRIPTION OF MAIN RISKS AND THREATS TO WHICH THE COMPANY IS EXPOSED

A detailed breakdown of the main risks and threats to which the Bank will be exposed in the coming months is provided in the chapter "Risk Management" in the Notes to Financial Statements.

9. ALL SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

As of 31 March 2019, related parties of the Bank are the following:

1. Komercijalna banka a.d. Podgorica, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d. Beograd,
4. One legal entity and a larger number of individuals, in accordance with Article 2 of the Law on Banks, which defines the term "related parties of a bank".

Total exposure to the Bank's related parties as at 31 March 2019 was 431.4 million dinars. In relation to the capital of 56,432.6 million dinars, this translates to 0.8% (the upper limit of total loans to all related persons of the Bank under the Law on Banks is set at 25% of its capital).

The largest share of the exposure to related parties of the Bank as at 31 March 2019, was the amount of 271.1 million dinars or 0.5% of the Bank's capital, comprising loans to the company KomBank INVEST a.d. Beograd.

In compliance with Article 37 of the Law on Banks, the Bank has not granted loans to its related parties under more favourable terms than those applicable to unrelated parties.

10. DESCRIPTION OF ANY SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

After the end of 2018, significant events that took place in Q1 2019 include one General Meeting of Shareholders of the Bank, which was a repeated meeting, held on 27 February 2019.

Before that date, a regular General Meeting of Shareholders had been scheduled for 28 January 2019, which had not been held due to the lack of quorum. That General Meeting of Shareholders should have had the following agenda:

1. Decision on adoption of the Strategy and Business Plan of Komercijalna banka AD Beograd for 2019-2021;
2. Decision correcting a technical error in the Decisions of the General Meeting of Shareholders No. 19521/3c and No. 19521/3d of 17 October 2018.

At the repeated General Meeting of Shareholders, which was held on 27 February 2019, the following decisions were passed:

1. Decision on adoption of the Strategy and Business Plan of Komercijalna banka AD Beograd for 2019-2021.
2. Decision on amendment to Decision number 19521/3c of 17 October 2018 - Aleksei Germanovich.
3. Decision on amendment to Decision number 19521/3d of 17 October 2018 - Oleksandr Danyliuk.

A new regular General Meeting of Shareholders was held on 24 April 2019, the following decisions were passed:

1. Decision on adoption of the Annual Report of Komercijalna banka a.d. Beograd and regular financial statements for 2018 with the external auditor's opinion;
2. Decision on adoption of the Annual Report and consolidated financial statements of Komercijalna banka a.d. Beograd Group for 2018 with the external auditor's opinion;
3. Decision on distribution of profit from 2018 and retained earnings from previous years;
4. Decision on release from duty and appointment of the Chairperson of the Board of Directors of Komercijalna banka AD Beograd;
5. Decision on release from duty and appointment of a member of the Board of Directors of Komercijalna banka AD Beograd;
6. Decision on appointment of a member of the Board of Directors of Komercijalna banka AD Beograd.

A description of events which took place after the balance sheet date is provided in section 6 in the Notes to the Financial Statements for Q1 2019.

11. KEY INFORMATION ON EXECUTION OF THE 2019 BUSINESS PLAN

Execution of the Bank's Strategy and Business Plan in the first three months of 2019 took place in the following macroeconomic conditions:

- GDP growth of 3.4% in Q4 2018, relative to the same period last year (SORS[8]); originally, planned GDP growth for the whole 2018 had been 3.5%, but the figure was later revised to 4.2%, while the most recent estimate is 4.4% (MFRS[9]),
- Stable movement of the dinar exchange rate at around 118 dinars for one euro (planned dinar/euro exchange rate at the end of the current year: EUR 1 = 119.00 dinars (KB); the actual exchange rate as at 31 March 2019 was EUR 1 = 117.97 dinars),
- Inflation rate (y-o-y, March 2019/March 2018) of 2.8%, with a mild upward tendency (at 2018 year-end, it was 2.0% y-o-y); it is currently below the limit of the target rate for 2019 (3.0%±1.5p.p.).

According to the SORS figures, average GDP growth rate in 2018 for all four quarters was 4.3%. GDP growth was driven by increased investment and increased spending, coupled with increased exports of goods and services. On the production side, growth was diverse, with the service sector, agriculture and sector making the highest contribution to growth[10]. In 2019, GDP is expected to grow by 3.5%. Limiting factors affecting GDP growth include global economic slowdown and the directions of monetary policies implemented by leading central banks in the world.

Total foreign trade in the first two months of 2019 was worth 6.0 billion euros[11] (with 2.5 billion euros worth of exported goods and 3.5 billion euros worth of imported goods), which was a 9.4% increase y-o-y (in the first two months of 2018, foreign trade was worth 5.5 billion euros).
Foreign exchange reserves of the NBS in February 2019 amounted to 11.39[12] billion euros and were 136.5 million euros higher than at 2018 year-end.
In January-February 2019, general government generated a fiscal surplus of 22.4 billion dinars[13]. Public debt at the end of February 2019 was 23.2 billion euros[14], or 50.4% of GDP.
In the first two months of 2019, net inflow of foreign direct investment (FDI) reached 534.9 million euros[15] - an increase of 2.0% y-o-y. Most of the FDI in the first two months of 2019 were equity investments, while projected investments for the whole 2019 are approx. 2.4 billion euros[16].

8 Quarterly Gross Domestic Product in the Republic of Serbia, Q4 2018, Press Release, SORS
9 Current Macroeconomic Trends, January 2019, Ministry of Finance of RS
10 Macroeconomic Trends in Serbia, April 2019, NBS
11 Table – Key Macroeconomic Indicators, February 2019, Ministry of Finance of RS
12 Current Macroeconomic Trends, January 2018, Ministry of Finance of RS
13 Press announcement, Ministry of Finance, 4 April 2019
14 Public Debt of the Republic of Serbia, Table 5, 4 April 2019
15 Macroeconomic Trends in Serbia, April 2019, NBS
16 Macroeconomic Trends in Serbia, April 2019, NBS

Relaxation of the NBS monetary policy since mid-2013 has resulted in lower interest rates on dinar-denominated corporate and retail loans. Interest rates on newly-approved dinar loans in February 2019 were 4.3% in the corporate segment 10.3% in the retail segment[17]. In addition, there has been a downward trend in interest rates on existing loans, which resulted in higher disposable income for other spending by retail and corporate customers.

Banks have continued the trend of increased lending, with a 10.0% y-o-y increase in February 2019. Retail loans increased by 12.4% y-o-y, while corporate loans increased by 8.1%[18] y-o-y. Lending by banks is expected to increase further by the end of the financial year, given the expected GDP growth, competition among banks, favourable labour market trends, lower NPLs and low interest rates in the Eurozone.

11.1. Planned and achieved Balance Sheet figures in Q1 2019

Total balance sheet assets of the Bank at the end of Q1 2019 amounted to 403,260.7 million dinars and fell short of the planned figure for year-end by 13,468.1 million dinars or 3.2%.

Investment in securities as at 31 March 2019 exceeded the planned level for the entire 2019, mainly as a result of lower lending activities than planned.

Loans to customers at the end of Q1 2019 amounted to 174,831.3 million dinars. In order to achieve the planned level of lending to customers, the Bank will have to lend 33,645.1 million dinars in the next three quarters, i.e. it will have to achieve a 19.2% lending growth.

In the next three quarters of 2019, the Bank will have to achieve growth in total deposits by 17,594.9 million dinars or 5.5%. The most significant increase is expected to come from retail deposits, which are expected to grow by 10,166.3 million dinars or 3.9%, and from corporate deposits, which are expected to grow by 7,924.2 million dinars or 16.7%.

Other liabilities as at 31 March 2019 exceeded the planned annual figure by 60.5%, so the expected decrease on this liability position in the future period is 6,141.9 million dinars.

The trend of the exchange rate of the dinar against the EUR, appreciation (by 0.2%) , contributed to a certain extent to the deviation of the achieved figures from the planned ones.

17 Macroeconomic Trends in Serbia, April 2019, NBS
18 Macroeconomic Trends in Serbia, April 2019, NBS

Achieved and planned positions of assets and liabilities on the Balance Sheet as at 31 March 2019 were as follows:

(RSD million)

No.	POSITION	Planned 31 December 2019	Achieved 31 March 2019	INDEX
1	2	3	4	5=4/3
	ASSETS			
1.	Cash and cash equivalents	60,170	58,027	96.44
2.	Securities	119,563	138,263	115.64
3.	**Granted loans (3.1.+3.2.+3.3.)**	**208,476**	**174,831**	83.86
3.1.	Corporate	99,695	76,996	77.23
3.2.	Retail	103,527	93,530	90.34
3.3.	Banks and financial organisations	5,254	4,306	81.95
4.	Other assets	28,519	32,140	112.70
5.	**TOTAL ASSETS (1.+2.+3.+4.)**	**416,729**	**403,261**	96.77
	LIABILITIES			
1.	**Deposits (1.1.+1.2.+1.3.)**	**335,744**	**318,149**	94.76
1.1.	Corporate	55,374	47,450	85.69
1.2.	Retail	272,759	262,593	96.27
1.3.	Banks and financial organisations	7,611	8,107	106.51
2.	Other obligations	10,156	16,298	160.47
3.	**Total obligations (1.+2.)**	**345,900**	**334,447**	96.69
4.	**Total capital**	**70,829**	**68,813**	97.15
5.	**TOTAL LIABILITIES (3.+4.)**	**416,729**	**403,261**	96.77

11.2. Planned and achieved Income Statement figures in the period 1 January - 31 March 2019

(RSD million)

No.	POSITION	Planned 1 Jan -31 March 2019	Achieved 1 Jan -31 March 2019	INDEX
1	2	3	4	5=4/3
1.1.	Interest income	3,431	3,408	99.3
1.2.	Interest expenses	-267	-276	103.7
1.	**Interest gain (1.1.-1.2.)**	3,165	3,132	98.9
2.1.	Fee and commission income	1,688	1,586	94.0
2.2.	Fee and commission expenses	-341	-370	108.5
2.	**Fee and commission gain (2.1.-2.2.)**	1,346	1,216	90.3
3.	Net exchange gain/loss and change in value (currency clause)	-	5	-
4.	Net other operating income and expenses	14	-563	-
5.	Net income/expenses of impairment of financial assets not carried at fair value through the Income Statement	-75	442	-
6.	Operating expenses	-2,726	-2,563	94.0
7.	**OPERATING PROFIT**	1,725	1,668	96.7

As regards Income Statement positions, a significant deviation occurred in net expenses arising from impairment of financial assets not carried at fair value through the Income Statement (the Bank generated net income of 442.1 million dinars, whereas it had planned a net expense of 74.9 million dinars).
The actual net interest gain fell short of the planned figure by 33.3 million dinars.
The actual net fee and commission gain in Q1 2019 was 130.4 million dinars lower than planned.

Operating expenses in the same period were 2,563.3 million dinars and were 162.4 million dinars lower than planned, as a result of rationalisation of operations.

Bank generated profit before tax of 1,668.5 million dinars, which was 3.3% lower than planned as a result of unplanned realisation of net other business expenses - reservations in Q1 2019.

Signed on behalf of Komercijalna banka a.d. Beograd

Director of the Controlling and Planning Division	Member of the Executive Board
Д. Романдић	
Dragana Romandić	Miroslav Perić, PhD

КОМЕРЦИЈАЛНА БАНКА А.Д. БЕОГРАД
БЕОГРАД
4

BALANCE SHEET

on 31.03.2019.

(in RSD thousand)

POSITION	ADP code	Amount	
		Current year ammount	Previous year ammount
1	2	3	4
ASSETS			
ASSETS Cash and assets held with central bank	0001	58.026.544	63.595.710
Pledged financial assets	0002	-	-
Receivables under derivatives	0003	1.384	4.070
Securities	0004	138.263.235	133.177.598
Loans and receivables from banks and other financial organisations	0005	16.417.795	18.477.729
Loans and receivables from clients	0006	170.881.986	167.545.674
Change in fair value of hedged items	0007	-	-
Receivables under hedging derivatives	0008	-	-
Investments in associated companies and joint ventures	0009	-	-
Investments into subsidiaries	0010	2.611.859	2.611.859
Intangible investments	0011	716.817	557.051
Property, plant and equipment	0012	6.787.566	5.619.078
Investment property	0013	1.886.742	1.896.347
Current tax assets	0014	-	-
Deferred tax assets	0015	1.444.664	840.967
Non-current assets held for sale and discontinued operations	0016	227.630	227.630
Other assets	0017	5.994.453	6.612.267
TOTAL ASSETS (from 0001 to 0017)	0018	403.260.675	401.165.980
LIABILITIES			
LIABILITIES Liabilities under derivatives	0401	-	-
Deposits and other liabilities to banks, other financial organisations and central bank	0402	4.138.812	5.662.748
Deposits and other financial liabilities to clients	0403	316.912.414	317.229.084
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	2.247.484	1.653.663
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	-	-
Deferred tax liabilities	0411	530.332	-
Other liabilities	0412	10.618.362	9.059.972
TOTAL LIABILITIES (from 0401 to 0412)	0413	334.447.404	333.605.467
CAPITAL			
CAPITAL Share capital	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	10.716.183	9.047.691
Loss	0417	-	-
Reserves	0418	18.062.538	18.478.272
Unrealized losses	0419	-	-
Non-controlling participation	0420	-	-
TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0	0421	68.813.271	67.560.513
TOTAL CAPITAL SHORTFALL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0	0422	-	-
TOTAL LIABILITIES (0413 + 0421 - 0422)	0423	403.260.675	401.165.980

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КОМЕРЦИЈАЛНА БАНКА БЕОГРАД 4 БЕОГРАД

INCOME STATEMENT

from 01.01.2019. to 31.03.2019.

(in RSD thousand)

POSITION	ADP code	Amount – Current year 01.01.-31.03.	Amount – Current year 01.01.-31.03.	Amount – Previous year 01.01.-31.03.	Amount – Previous year 01.01.-31.03.
1	2	3*	4**	5	6
Interest income	1001	3.407.977	3.407.977	3.330.631	3.330.631
Interest expenses	1002	276.411	276.411	232.413	232.413
Net interest gains (1001-1002)	1003	3.131.566	3.131.566	3.098.218	3.098.218
Net interest losses (1002-1001)	1004	-	-	-	-
Income from fees and commissions	1005	1.586.033	1.586.033	1.615.670	1.615.670
Expenses on fees and commissions	1006	369.951	369.951	414.110	414.110
Net gains from fees and commissions (1005 - 1006)	1007	1.216.082	1.216.082	1.201.560	1.201.560
Net losses on fees and commissions (1006 - 1005)	1008	-	-	-	-
Net gains from changes in fair value of financial instruments	1009	23.703	23.703	44.982	44.982
Net losses from changes in fair value of financial instruments	1010	-	-	-	-
Net gains on reclassification of financial instruments	1011	-	-	-	-
Net losses on reclassification of financial instruments	1012	-	-	-	-
Net gains from derecognition of the financial instruments measured at fair value	1013	58.369	58.369	37.394	37.394
Net losses on derecognition of the financial instruments measured at fair value	1014	-	-	-	-
Net gains from hedging	1015	-	-	-	-
Net losses on hedging	1016	-	-	-	-
Net exchange rate gains and gains from agreed currency clause	1017	5.088	5.088	-	-
Net exchange rate losses and losses on agreed currency clause	1018	-	-	9.421	9.421
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	442.079	442.079	231.041	231.041
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	-	-	-	-
Net gains from derecognition of the financial instruments measured at amortised cost	1021	-	-	-	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	-	-	-	-
Net gains from derecognition of investments in associated companies and joint ventures	1023	-	-	-	-
Net losses on derecognition of investments in associated companies and joint ventures	1024	-	-	-	-
Other operating income	1025	32.302	32.302	38.451	38.451
TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1026	4.909.189	4.909.189	4.642.225	4.642.225
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1027	-	-	-	-
Salaries, salary compensations and other personal expenses	1028	1.080.986	1.080.986	1.103.867	1.103.867
Depreciation costs	1029	249.205	249.205	145.205	145.205
Other income	1030	291.436	291.436	72.670	72.670
Other expenses	1031	2.201.942	2.201.942	1.478.977	1.478.977
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	1.668.492	1.668.492	1.986.846	1.986.846
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0	1033	-	-	-	-
Profit tax	1034	-	-	-	-
Gains from deferred taxes	1035	-	-	-	
Losses on deferred taxes	1036	-	-	-	-
PROFIT AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0	1037	1.668.492	1.668.492	1.986.846	1.986.846
LOSSES AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) < 0	1038	-	-	-	-
Net profit from discontinued operations	1039	-	-	-	-
Net losses on discontinued operations	1040	-	-	-	-
RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1041	1.668.492	1.668.492	1.986.846	1.986.846
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-	-	-
Profit belonging to a parent entity	1043	-	-	-	-
Profit belonging to non-controlling owners	1044	-	-	-	-
Losses belonging to a parent entity	1045	-	-	-	-
Losses belonging to non-controlling owners	1046	-	-	-	-
EARNINGS PER SHARE					
Basic earnings per share (in dinars, without paras)	1047	-	-	-	-
Diluted earnings per share (in dinars, without paras)	1048	-	-	-	-

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

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД 4

STATEMENT OF OTHER COMPREHENSIVE RESULT

from 01.01.2019. to 31.03.2019.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03.	01.01.-31.03.	01.01.-31.03
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	1.668.492	1.668.492	1.986.846	1.986.846
LOSS FOR THE PERIOD	2002	-	-	-	-
Other comprehensive income for the period **Components of other comprehensive income which cannot be reclassified to profit or loss:** Increase in revaluation reserves based on intangible assets and fixed assets	2003	-	-	-	-
Decrease in revaluation reserves based on intangible assets and fixed assets	2004	-	-	-	-
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	280.834	280.834	36.593	36.593
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	-	-		-
Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009	-	-	-	-
Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010	-	-	-	-
Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011	-	-	-	-
Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014	-	-	-	-
Components of other comprehensive income that may be reclassified to profit or loss: Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	2015	-	-	50.291	50.291
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	769.933	769.933	12.942	12.942
Gains from cash flow hedges	2017	-	-	-	-
Losses from cash flow hedges	2018	-	-	-	-
Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019	-	-	-	-
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	-	-	-	-
Unrealised gains from hedge of net investments in foreign operations	2021	-	-	-	-
Unrealised losses from hedge of net investments in foreign operations	2022	-	-	-	-
Unrealised gains from other hedging instruments	2023	-	-	-	-
Unrealised losses from other hedging instruments	2024	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2025	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2026	-	-	-	-
Tax gains relating to other comprehensive income for the period	2027	115.490	115.490	-	-
Tax losses relating to other comprehensive income for the period	2028	42.125	42.125	11.091	11.091
Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) ≥ 0	2029	-	-	**62.851**	**62.851**
Total negative comprehensive income 2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) < 0	2030	**415.734**	**415.734**	-	-
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	**1.252.758**	**1.252.758**	**2.049.697**	**2.049.697**
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	-	-	-	-
Total positive comprehensive income for the period attributable to the parent entity	2033	-	-	-	-
Total positive comprehensive income for the period attributable to non-controlling owners	2034	-	-	-	-
Total negative comprehensive income for the period attributable to the parent entity	2035	-	-	-	-
Total negative comprehensive income for the period attributable to non-controlling owners	2036	-	-	-	-

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

CASH FLOW STATEMENT

from 01.01.2019. to 31.03.2019.

(in RSD thousand)

	POSITION	ADP code	Amount 01.01.-31.03.2019.	01.01-31.03.2018.
	1	2	3*	4
A.	CASH FLOWS FROM OPERATING ACTIVITIES			
I.	**Cash inflow from operating activities (from 3002 to 3005)**	3001	7.028.157	5.984.759
1.	Interest	3002	4.861.678	4.112.855
2.	Fees	3003	1.624.330	1.643.617
3.	Other operating income	3004	540.496	226.610
4.	Dividends and profit sharing	3005	1.653	1.677
II.	**Cash outflow from operating activities (from 3007 to 3011)**	3006	2.721.137	2.785.341
5.	Interest	3007	223.410	248.965
6.	Fees	3008	361.342	414.692
7.	Gross salaries, salary compensations and other personal expenses	3009	731.691	730.759
8.	Taxes, contributions and other duties charged to income	3010	176.284	165.575
9.	Other operating expenses	3011	1.228.410	1.225.350
III.	**Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	4.307.020	3.199.418
IV.	**Net cash outflow from operating activities before an increase or decrease in financial assets and financial liabilities (3006 - 3001)**	3013	-	-
V.	**Decrease in financial assets and increase in financial liabilities (from 3015 to 3020)**	3014	1.440.538	13.150.391
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	1.440.538	13.150.391
11.	Decrease in receivables under securities and other financial assets not intended for investment	3016	-	-
12.	Decrease in receivables under hedging derivatives and change in fair value of hedged items	3017	-	-
13.	Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	3018	-	-
14.	Increase in other financial liabilities	3019	-	-
15.	Increase in liabilities under hedging derivatives and change in fair value of hedged items	3020	-	-
VI.	**Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)**	3021	6.507.731	3.569.480
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	-	-
17.	Increase in receivables under securities and other financial assets not intended for investment	3023	5.104.254	2.106.332
18.	Increase in receivables under hedging derivatives and change in fair value of hedged items	3024	-	-
19.	Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	3025	1.403.477	1.456.083
20.	Decrease in other financial liabilities	3026	-	7.065
21.	Decrease in liabilities under hedging derivatives and change in fair value of hedged items	3027	-	-
VII.	**Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)**	3028	-	12.780.329
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3029	760.173	-
22.	Profit tax paid	3030	-	-
23.	Dividends paid	3031	-	-
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	-	12.780.329
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	760.173	-
B.	CASH FLOWS FROM INVESTMENT ACTIVITIES			
I.	**Cash inflow from investing activities (from 3035 to 3039)**	3034	21.915.816	17.049.758
1.	Investment in investment securities	3035	21.915.816	17.049.758
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	-	-
4.	Sale of investment property	3038	-	-
5.	Other inflow from investing activities	3039	-	-
II.	**Cash outflow from investing activities (from 3041 to 3045)**	3040	24.409.056	26.342.315
6.	Investment into investment securities	3041	24.082.721	26.186.916
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	326.335	155.399
9.	Purchase of investment property	3044	-	-
10.	Other outflow from investing activities	3045	-	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	-	-
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	2.493.240	9.292.557
C.	CASH FLOWS FROM FINANCING ACTIVITIES			
I.	**Cash inflow from financing activities (from 3049 to 3054)**	3048	14.498.545	23.841.927
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	14.498.545	23.841.927
4.	Issuance of securities	3052	-	-
5.	Sale of own shares	3053	-	-
6.	Other inflow from financing activities	3054	-	-
II.	**Cash outflow from financing activities (from 3056 to 3060)**	3055	14.922.455	25.319.443
7.	Purchase of own shares	3056	-	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	14.846.724	25.319.443
10.	Issuance of securities	3059	-	-
11.	Other outflow from financing activities	3060	75.731	-
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	-	-
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	423.910	1.477.516
D.	**TOTAL CASH INFLOWS (3001 + 3014 + 3034 + 3048)**	3063	44.883.056	60.026.835
E.	**TOTAL CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	48.560.379	58.016.579
F.	**NET INCREASE IN CASH (3063 - 3064)**	3065	-	2.010.256
G.	**NET DECREASE IN CASH (3064 - 3063)**	3066	3.677.323	-
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**	3067	40.375.748	26.314.898
I.	**EXCHANGE RATE GAINS**	3068	94.575	-
J.	**EXCHANGE RATE LOSSES**	3069	91.196	80.996
K.	**CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)**	3070	36.701.804	28.244.158

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

STATEMENT OF CHANGES IN EQUITY

from 01.01.2019. to 31.03.2019.

(in RSD thousand)

ITEM	ADP code	Share capital and other equity (accounts 800, 801,803, 809)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (group of accounts 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Non-controlling participation	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)<0
1		2		3		4		5		6		7		8		9		10		11		12
Opening balance as at 1 January of the previous year	4001	17.191.466	4033		4065	22.843.084	4097	11.061.535	4129	4.030.259	4147	3.538	4165	8.137.249	4203	0	4241		4285	63.260.055	4291	
Effects of the first implementation of new IFRS - increase	4002		4034		4066		4098		4130	176.617	4148		4166		4204		4242					
Effects of the first implementation of new IFRS – decrease	4003		4035		4067		4099		4131		4149	3.538	4167	1.161.693	4205		4243					
Changes in accounting policies and correction of prior period error – increase	4004		4036		4068		4100		4132		4150		4168		4206		4244					
Changes in accounting policies and correction of prior period error – decrease	4005		4037		4069		4101		4133		4151		4169		4207		4245					
The adjusted opening balance as at 1 January of the previous year (No 1+2-3)	4006	17.191.466	4038	0	4070	22.843.084	4102	11.061.535	4134	4.206.876	4152	0	4170	6.975.556	4208	0	4246		4286	62.278.517		
Total positive other comprehensive income for the period									4135	47.861	4153				x		4247					
Total negative other comprehensive income for the period									4136		4154				x		4248					
Profit for the current year													4171	8.145.182	x		4249					
Loss for the current year															4209		4250					
Transfer from provisions to retained earnings due to provisions reversal – increase													4172		4210		4251					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4173		4211		4252					
Transactions with owners recognized directly in equity – increase	4007		4039		4071		4103						4174		4212		4253					
Transactions with owners recognized directly in equity – decrease	4008		4040		4072		4104						4175		4213		4254					
Distribution of profit – increase	4009		4041		4073		4105	3.162.000					4176		4214		4255					
Distribution of profit and/or coverage of losses – decrease	4010		4042		4074		4106						4177	3.162.000	4215		4256					
Dividend payments	4011		4043		4075		4107						4178	2.535.916	4216		4257					
Other – increase	4012		4044		4076		4108						4179	23.509	4217		4258					
Other – decrease	4013		4045		4077		4109						4180	398.640	4218		4259					
Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0	4014	0	4046	0	4078	0	4110	3.162.000					4181	0	4219	0	4260					
Total transactions with owners (No 11-12+13-14-15+16-17) < 0	4015	0	4047	0	4079	0	4111	0					4182	6.073.047	4220	0	4261					
Balance as at 31 December of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)	4016	17.191.466	4048	0	4080	22.843.084	4112	14.223.535	4137	4.254.737	4155	0	4183	9.047.691	4221	0	4262		4287	67.560.513	4293	
Opening balance as at 1 January of the current year	4017	17.191.466	4049		4081	22.843.084	4113	14.223.535	4138	4.254.737	4156	0	4184	9.047.691	4222	0	4263		4288	67.560.513	4294	
Effects of the first implementation of new IFRS - decrease	4018		4050		4082		4114		4139		4157		4185		4223		4264					
Effects of the first implementation of new IFRS - decrease	4019		4051		4083		4115		4140		4158	0	4186		4224		4265					
Changes in accounting policies and correction of prior period error – increase	4020		4052		4084		4116		4141		4159		4187		4225		4266					
Changes in accounting policies and correction of prior period error – decrease	4021		4053		4085		4117		4142		4160		4188		4226		4267					
Adjusted opening balance as at 1 January of the current year (No 21+22-23)	4022	17.191.466	4054	0	4086	22.843.084	4118	14.223.535	4143	4.254.737	4161	0	4189	9.047.691	4227	0	4268		4289	67.560.513	4295	
Total positive other comprehensive income for the period									4144		4162				x		4269					
Total negative other comprehensive income for the period									4145	415.734	4163				x		4270					
Profit for the current year													4190	1.668.492	x		4271					
Loss for the current year															4228		4272					
Transfer from provisions to retained earnings due to provisions reversal – increase													4191		4229		4273					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4192		4230		4274					
Transactions with owners recognized directly in equity – increase	4023		4055		4087		4119						4193		4231		4275					
Transactions with owners recognized directly in equity – decrease	4024		4056		4088		4120						4194		4232		4276					
Distribution of profit – increase	4025		4057		4089		4121						4195		4233		4277					
Distribution of profit and/or coverage of losses – decrease	4026		4058		4090		4122						4196		4234		4278					
Dividend payments	4027		4059		4091		4123						4197		4235		4279					
Other – increase	4028		4060		4092		4124						4198		4236		4280					
Other – decrease	4029		4061		4093		4125						4199		4237		4281					
Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0	4030	0	4062	0	4094	0	4126	0		0			4200	0	4238	0	4282					
Total transactions with owners (No 31-32+33-34-35+36- 37) < 0	4031	0	4063	0	4095	0	4127	0		0			4201	0	4239	0	4283					
Balance as at 31 March of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)	4032	17.191.466	4064	0	4096	22.843.084	4128	14.223.535	4146	3.839.003	4164	0	4202	10.716.183	4240	0	4284		4290	68.813.271	4296	

NOTES

TO FINANCIAL STATEMENTS FOR THE FIRST QUARTER 2019

Belgrade, May 2019

1. INCORPORATION AND OPERATION OF THE BANK

Komercijalna Banka AD Beograd (hereinafter referred to as "Bank") was incorporated on 1st December 1970, and transformed into a joint-stock company on 6th May 1992.

As of 31st March 2019, the largest voting shareholders of the Bank are:
1. Republic of Serbia, and
2. EBRD, London

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

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

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

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

As of 31st March 2019, the Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 6 business centres, three sectors for work with small and medium-sized enterprises, 1 branch and 200 sub-branches.

As of 31st March 2019 the Bank has 2,754 employees, and on 31st December 2018, the number of employees was 2,766. Tax ID number of the Bank is 100001931.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Statement of Compliance

The Bank keeps books of accounts and prepares the financial statements in accordance with the applicable Law on Accounting of the Republic of Serbia (RS Official Gazette, 62/2013 and 30/2018), the Law on Banks (RS Official Gazette, numbers 107/2005, 91/2010 and 14/2015) and other relevant by-laws of the National Bank of Serbia, as well as other applicable legal regulations in the Republic of Serbia.

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

When preparing and presenting periodic financial statements for the period January – March 2019, the implementation of the IFRS 9 standard resulted in amendments to the NBS legislation that obliged banks to apply new forms of financial statements with the starting date of 1st January 2018.

International Financial Reporting Standard 16 Leasing is in force for annual periods that start on the day or after 01 January 2019. IFRS 16 defines the principles for recognition, measurement, presentation and disclosure of leasing for both contractual parties, and/or for the leaseholder/lessee and leasing provider/lessor and it requires from the leaseholders to calculate all the leases within one balance sheet model similar to accounting for financial leasing in accordance with IAS 17. Standard includes two exemptions from recognition for leaseholders – lease of “low-value assets” and short-term leases (that is, the leases with the lease term of 12 months or less). The Bank opted for using the exemptions that are enabled by the standard.

The Bank made a transition in line with the modified retrospective approach. Comparative data from the previous year have not been corrected.

When creating quarterly financial statements for 2019, the Bank applied new Accounting policies to the part referring to financial instruments and possibility of allocation of credit losses for all accounting periods which record benefits from assets, which is a prerequisite for determining an accurate result.

The Bank prepares and presents regular financial statements for the current business year ending on 31st December of the current year as well as reports in a shorter period for its needs, at the request of the Bank’s competent body or competent state authorities.

The enclosed financial statements are prepared in the format prescribed by the Rulebook on the content, form and manner of publishing annual, semi-annual and the quarterly financial statements of the public companies (RS Official Gazette no. 12/2015, 5/2015 and 24/2017) on the basis of which public companies and certain companies related with them present information to the Securities Commission in conformity with the Law on Capital Market (RS Official Gazette, number 31/2011, 112/2015 and 108/2016). The prescribed set of quarterly financial statements includes: Balance Sheet, Income Statement, Statement of Other Comprehensive Income, Cash Flow Statement, Statement of Changes in Equity, and Notes to Quarterly Financial Statements.

2.2. Rules of assessment of financial instruments

In terms of classification and measurement, IFRS 9 introduces new criteria for the classification of financial assets, except for equity instruments and derivatives, which are based on the assessment of the business model for managing specific financial assets and agreed characteristics of cash flows of financial instruments in accordance with the Bank’s accounting policies.

IFRS 16 regulates that on the day of start of the lease, the leaseholder recognises the obligation for payment of leasing (that is, the obligation for leasing) and the asset that represents the right to use the subject asset during the lease term (i.e. the right to use the asset). The leaseholders are required to separately recognise the cost of interest on leasing liability and the costs of depreciation arising from the right to use the asset.

At the time of first implementation of IFRS 16, right to use the leasing asset is generally measured in the amount of liabilities based on leasing, using the average incremental borrowing rate. The first implementation resulted in recording the liabilities arising from leasing in the amount of RSD 1,349,455 thousand, and therefore, the right to use the asset in preliminary amount of RSD 1,349,455 thousand in Balance Sheet as of 01 January 2019.

2.2.1. Financial assets

The Bank is making an assessment of the objectives of business models for managing financial assets at the portfolio level, since such an assessment best presents the manner of managing business activities and the manner of reporting to the management.

The classification of financial assets is based on the application of an appropriate business model for managing financial assets and fulfilment of the test of characteristics of agreed cash flows.

The business model determines whether cash flows result from the collection of agreed cash flows, sale of financial assets, or both. The business model for the classification of financial assets is determined at an appropriate level of aggregation.

The fulfilment of the test of characteristics of agreed cash flows implies that cash flows consist exclusively of the payment of the principal and the interest rate on the remaining principal (SPPI criterion).

Financial assets may be classified into the following categories:

a) Financial assets valued at amortised costs (AC)
b) Financial assets valued at fair value through profit and loss (FVTPL)
c) Financial assets valued at fair value through other comprehensive income, with recognition through the income statement – “recycling“(FVOCI)
d) Financial assets valued at fair value through other comprehensive income, without recognition through the income statement (FVOCI)

In accordance with the classification of the assets referred to in the previous paragraph, the Bank categorises all placements from its portfolio that refer to:

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market, and which the Bank does not intend to sell in a short period of time,
- Securities that are valued at fair value through profit and loss, which represent instruments obtained for the purpose of generating profit from the fluctuation of prices and margin,
- Securities which include debt securities and proprietary securities (equity instruments), and
- Financial derivatives that include forward and swap transactions.

2.2.2. Financial liabilities

Financial liabilities are any contracted liability of the Bank:

- To deliver cash or another financial asset to another legal entity,
- To exchange financial instruments with another legal entity under conditions which are potentially unfavourable.

2.3. Functional and Reporting Currency

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

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

BALANCE SHEET

The structure of the Bank's balance sheet as of 31st March 2019, with comparative data for 2018, prepared in the format prescribed by the Decision on Forms and the Contents of Items in the Forms for Financial Statements of Banks (RS Official Gazette 101/2017, 38/2018 and 103/2018), applied from 1st January 2018 and can be seen in more detail from the following overview:

In thousand RSD

	31.03.2019.		31.12.2018.	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	58,026,544	14.39	63,595,710	15.85
Receivables under derivatives	1,384	-	4,070	-
Securities	138,263,235	34.28	113,177,598	33.20
Loans and receivables due from banks and other financial organizations	16,417,795	4.07	18,477,729	4.61
Loans and receivables from customers	170,881,986	42.37	167,545,674	41.76
Investments in subsidiaries	2,611,859	0.65	2,611,859	0.65
Intangible assets	716,817	0.18	557,051	0.14
Property, plant and equipment	6,787,566	1.68	5,619,078	1.40
Investment property	1,886,742	0.47	1,896,347	0.47
Deferred tax assets	1,444,664	0.36	840,967	0.21
Non-current assets held for sale and assets from discontinued operations	227,630	0.06	227,630	0.06
Other assets	5,994,453	1.49	6,612,267	1.65
TOTAL ASSETS	**403,260,675**	**100.00**	**401,165,980**	**100.00**

LIABILITIES	Amount	%	Amount	%
Deposits and other fin. liabilities to banks, other fin. organisations and the Central Bank	4,138,812	1.03	5,662,748	1.41
Deposits and other fin. liabilities to other customers	316,912,414	78.59	317,229,084	79.08
Provisions	2,247,484	0.56	1,653,663	0.41
Deferred tax liabilities	530,332	0.13	-	-
Other liabilities	10,618,362	2.63	9,059,972	2.26
Total liabilities	334,447,404	82.94	333,605,467	83.16
Capital				
Share capital	40,034,550	9.93	40,034,550	9.98
Profit	10,716,183	2.65	9,047,691	2.25
Reserves	18,062,538	4.48	18,478,272	4.61
Total capital	**68,813,271**	**17.06**	**67,560,513**	**16.84**
TOTAL LIABILITIES	**403,260,675**	**100.00**	**401,165,980**	**100.00**

INCOME STATEMENT
Profit and loss structure for 2019 is as follows:

In thousand RSD

	31.03.2019.	31.03.2018.
INCOME	Total	Total
Interest income	3,407,977	3,330,631
Interest expenses	(276,411)	(232,413)
Net interest income	3,131,566	3,098,218
Fee and commission income	1,586,033	1,615,670
Fee and commission expenses	(369,951)	(414,110)
Net fee and commission income	1,216,082	1,201,560
Net gain from changes in fair value of financial instruments	23,703	44,982
Net gain based on derecognition of financial instruments that are measured at fair value	58,369	37,394
Net income from exchange differentials and the effects of agreed currency clause	5,088	-
Net expense from exchange differentials and the effects of agreed currency clause	-	(9,421)
Net income from reduced impairment of financial assets that are not measured at fair value through P&L	442,079	231,041
Other operating income	32,302	38,451
Total net operating income	**4,909,189**	**4,642,225**
Cost of salaries, allowances and other personnel expenses	(1,080,986)	(1,103,867)
Depreciation cost	(249,205)	(145,205)
Other income	291,436	72,670
Other expenses	(2,201,942)	(1,478,977)

Profit /loss before tax	**1,668,492**	**1,986,846**
Profit from deferred tax	**-**	**-**
Result for the period (profit /loss)	**1,668,492**	**1,986,846**

CASH FLOW STATEMENT

Cash flows achieved in 2019 are shown in the table below:

In thousand RSD

Item	31.03.2019 Total	31.03.2018 Total
Cash inflows from operating activities	**7,028,157**	**5,984,759**
Inflow from interest	4,861,678	4,112,855
Inflow from fees	1,624,330	1,643,617
Inflow from other operating activities	540,496	226,610
Inflow from dividends and share in profit	1,653	1,677
Cash outflows from operating activities	**(2,721,137)**	**(2,785,341)**
Outflow from interest payments	(223,410)	(248,965)
Outflow from fee payments	(361,342)	(414,692)
Outflows from payments for gross salaries, allowances and other personnel expenses	(731,691)	(730,759)
Outflow from taxes, contributions and other duties charged to expense	(176,284)	(165,575)
Outflows for other operating expenses	(1,228,410)	(1,225,350)
Net cash inflow from operating activities before increase or decrease in financial assets and financial liabilities	**4,307,020**	**3,199,418**
Decrease in financial assets and increase in financial liabilities	**(1,440,538)**	**(13,150,391)**
Decrease in loans and other receivables from banks and other financial organizations, central bank and customers	(1,440,538)	(13,150,391)
Increase in financial assets and decrease in financial liabilities	**6,507,731**	**3,569,480**
Increase in receivables based on securities and other financial assets not intended for investment	5,104,254	2,106,332
Decrease in deposits and other financial liabilities to banks and other financial organizations, central banks and customers	(1,403,477)	(1,456,083)
Decrease in other financial liabilities	-	(7,065)

Item	31.03.2019. Total	31.03.2018. Total
Net inflow of cash from operating activities before profit tax	**-**	**12,780,329**
Net outflow of cash from operating activities before profit tax	**(760,173)**	**-**
Net inflow of cash from operating activities	**-**	**12,780,329**
Net outflow of cash from operating activities	**(760,173)**	**-**
Cash inflow from investment activities	**21,915,816**	**17,049,758**
Inflow from investment securities	21,915,816	17,049,758
Cash inflow from investment activities	**(24,409,056)**	**(26,342,315)**
Outflow from investing in investment securities	(24,082,721)	(26,186,916)
Outflow for purchase of intangible assets, property, plants and equipment	(326,335)	(155,399)
Net inflow of cash from investment activities	**-**	**-**
Net outflow of cash from investment activities	**(2,493,240)**	**(9,292,557)**
Cash inflow from financing activity	**14,498,545**	**23,841,927**
Inflow from borrowings	14,498,545	23,841,927
Cash outflow from financing activity	**(14,922,455)**	**(25,319,443)**
Outflow of cash from borrowings	(14,846,724)	(25,319,443)
Other outflows from financing activity	(75,731)	-
Net outflow of cash from financing activity	**(423,910)**	**(1,477,516)**
Total cash inflow	**44,883,056**	**60,026,835**
Total cash outflow	**(48,560,379)**	**(58,016,579)**
Net increase in cash	**-**	**2,010,256**
Net decrease in cash	**(3,677,323)**	**-**
Cash and cash equivalents at the start of the year	**40,375,748**	**26,314,898**
Exchange rate gains	94,575	-
Exchange rate loss	(91,196)	(80,996)
End of period cash and cash equivalents	**36,701,804**	**28,244,158**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

Fees for loan approval are deferred according to period of duration and are recognized in profit and loss account in proportion to duration, within the interest income position.

Net interest income in the period January – March 2019 amount to RSD 3,131,566 thousand and are higher by RSD 33,348 thousand or 1.08% compared to the same period last year.

The realised net interest income is approximately equal to the planned values from the business plan for the first three months of 2019.

3.2. Fee and Commission Income and Expenses

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

Income from fees for banking services and expenses based on fees and commissions are established at the time when they are due for collection or when paid. They are recognized in the Income Statement at the time when they incur and/or when due for collection. Income based on fee for guarantees and other contingent liabilities are accrued according to the period of duration and are recognized in the profit and loss account in proportion to the duration period.

Net fee and commission income in the period January – March 2019 amount to RSD 1,216,082 thousand and are higher compared to the same period of 2018 by 1.21% or RSD 14,522 thousand.

3.3. Net income from the change in fair value of financial instruments and net income from derecognition of financial instruments measured at fair value

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

In the observed period in 2019 the Bank reported net gain on the basis of the change in the fair value of financial instruments held for trading in the amount of RSD 23,703 thousand (bonds and T-bills of the Republic of Serbia and investment units of Kombank money fund).

Unrealized gains and losses based on the change of value of debt and equity securities valued at fair value through other comprehensive income are recognized within the revaluation reserves included in the Bank's capital. At the time of derecognition of debt securities (sale or permanent decrease in the value), corresponding amounts of the previously formed revaluation reserves are shown in the Income Statement as gains or losses based on the derecognition, whereas in case of derecognition of equity securities, relevant amounts of previously formed revaluation reserves permanently remain within the capital.

On the basis of derecognition of financial instruments that are measured at fair value the net income from sale in the amount of RSD 58,369 thousand has been recorded (bonds of the Republic of Serbia).

Gains/losses based on the agreed currency clause and changes in the exchange rate of securities, and interest income from securities, except for securities at fair value through the Income Statement, are presented in the Income Statement.

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

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

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

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

Loans and deposits in RSD, for which protection against risk was agreed by linking the RSD exchange rate to the EUR, to other foreign currency or to the growth of retail price index, were re-valued in accordance with each specific loan contract. The difference between the nominal value of unpaid principal for loans or unpaid deposits and re-valued amount is shown within receivables from loans or liabilities from deposits. Effects of this revaluation are recorded as income and expenses from FX differences arising from the agreed currency clause.

Net income from exchange rate differentials in the reporting period January – March 2019 amount to RSD 5,088 thousand. The stated net income is mainly under direct impact of movement of RSD exchange rate against currency basket (currencies EUR, USD and CHF) between the two observed reporting periods as a form of protection against risk and management of the Bank's FX position – balanced FX position.

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

3.5. Net income/expenses from impairment of financial assets not measured at fair value through profit and loss account

Net income/expenses from impairment refer to the financial assets classified by the Bank into the following categories: loans and receivables measured at amortised cost, and securities measured at fair value through other comprehensive income.

Amortised value of a financial asset or liability is the amount according to which assets or liabilities are initially valued, deduced by the payment of the principal, and increased or reduced by accumulated depreciation using the method of effective interest rate for the spread between the initial value and nominal value on the date of maturity of the instrument, deduced by impairment.

For impairment identification and valuation, the Bank applies the concept of expected credit loss. The Bank calculates and recognises the impairment provision for all financial instruments measured at the amortised cost, as well as for financial assets measured at fair value through other comprehensive income.

The method of identification, calculation and recognition of impairment provision is defined by the Methodology for the calculation of impairment provision in accordance with IFRS 9

Loans and other receivables are presented in the amount reduced by the group or individual impairment. Individual and group impairment are reduced from the book value of loans identified as impaired in order to deduce their value to their reimbursable value.

If impairment is reduced in the following period, and reduction may be objectively ascribed to the event that occurred after the recognition of loss due to impairment (such as improvement of the debtor's credit rating), then impairment provision is terminated for the previously recognised loss due to impairment.

In period January – March 2019 net income was recorded based on reduced impairment of financial assets and credit risk-bearing off-balance sheet items that are not measured at fair value through P&L in amount of RSD 442,079 thousand and are higher compared to the same period of 2018 by RSD 211,038 thousand, and/or 91.34% Increase in comparison to the same reporting period related, inter alia, to collection of receivables, from February 2019, which the Bank achieved by realizing the contract between two clients, in accordance with the provisions of the legally valid pre-packaged plan of reorganisation, based on purchase and sale of warehouse facility over which the Bank has the right of registration of mortgage. Total amount of payment of RSD 442,089 thousand is recognized in P&L on the basis of collection of written-off receivables.

3.6. Other operating income

In the overall other operating income amounting to RSD 32,302 thousand the most considerable share of 92.69 % have income from operating activities (the same period last year 95.64 %), which is largely relate to income realised from lease of property amounting to RSD 14,626 thousand. Other operating income is realized on the basis reimbursement of expenses based on: court and utility costs, income from long-term insurance, income arising from use of business vehicle for private purposes, and income from collected costs of business mobile telephones as per authorization of the employees.

Income from dividends is part of the item: Other Operating Income. Dividends received from investment in shares of other legal entities in the amount of RSD 2,361 thousand are shown as income from dividends at the moment of their collection. Out of total amount of collected dividends, RSD 1,944 thousand relate to a dividend received from VISA Inc. USA, while RSD 417 thousand relate to dividend received from MasterCard USA.

3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 1,080,986 thousand are lower by RSD 2,281 thousand or 2.07% compared to the same period last year.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 249,205 thousand are higher compared to period January – March 2018 by RSD 104,000 thousand or 71.62%. Increase in depreciation costs mostly refer to depreciation of leasing assets due to start of implementation of standard IFRS 16 in amount of RSD 100,256 thousand (reference note 2.2.). Leasing asset initially recognized at purchase value is subsequently reduced for the amount of amortization whereby the amortization is calculated at straight line method over the period of the lease contract term.

3.9. Other Income

Out of the total other income in the amount of RSD 291,436 thousand the most significant share of 96.26% have the income from the release of unused provisions for court disputes in the amount of RSD 280,540 thousand (reference note 3.17.), as well as other income with share of 3.74%, and/or RSD 10,896 thousand. Those most significant positions in other income pertain to income on the basis of contract by which the Bank exercises the right to reduction of the part of costs for purchase of blank plastic for making Visa and Master cards, in the amount of RSD 4,348 thousand.

3.10. Other Expenses

Other expenses are stated in the amount of RSD 2,201,942 thousand and are higher compared to the same period last year by RSD 722,965 thousand, and/or 48.88%. Other expenses comprise of:

a) Operating expenses amounting to RSD 1,233,127 thousand,
b) Cost of provisions for court proceedings liabilities amounting to RSD 884,189 thousand,
c) Other expenses amounting to RSD 83,754 thousand and
d) Losses from disposal and write-off of fixed assets and intangible assets in the amount of RSD 872 thousand.

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

a) Operating expenses in the total amount of RSD 1,233,127 thousand, as follows:

immaterial costs totalling RSD 609,443 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 429,622 thousand, property insurance expenses in the amount of RSD 60,118 thousand, costs of transportation to and from work of RSD 24,134 thousand, costs of money transport in the amount of RSD 19,101 thousand, costs of lawyer services amounting to RSD 18,348 thousand, cost of production services amounting to RSD 321,506 thousand, cost of material in amount of RSD 79,121 thousand, tax costs amounting to RSD 37,893 thousand, contribution costs amounting to RSD 176,840 thousand and other costs in amount of RSD 8,324 thousand;

Operating expenses of the current period are lower compared to the same period last year by RSD 118,699 thousand.

b) Costs of provisions for court disputes in the amount of RSD 884,189 thousand relate to increase of provisions for Bank's court disputes in 2019 (reference note 3.17.) and

c*) Other expenses in the amount of RSD 83,754 thousand.*

Out of total amount of other expenses for period January - March 2019 in amount *of* RSD 83,754 thousand the largest part relates co costs of the insurance policy for receivables of the loan users in the amount of RSD 49,693 thousand. Other expenses on this basis in the same period 2018 amounted to RSD 36,998 thousand.

Compared to the same period 2018, other expenses are higher by RSD 25,985 thousand, mainly as a result of increase of cost of insurance for receivables of the loan users (increase by RSD 12,695 thousand), cost of insurance of the user of product – account sets (increase by RSD 6,049 thousand) and cost of expenses as per lost court proceedings (increase by RSD 5,392 thousand).

BALANCE SHEET

Total balance sheet as of 31.03.2019 amount to RSD 403,260,675 thousand, which in comparison to 31.12.2018 represents an increase by RSD 2,094,695 thousand, or 0.52%.

ASSETS

The dominant share in the total assets of the Bank is that of the loans and deposits to customers and banks of 46.44% (2018: 46.37%), securities with share of 34.28% (2018: 33.20%), cash and funds with central bank with share of 14.39% (2018: 15.85%), property, plant and equipment with share of 1.68% (2018: 1.40%), other assets with share of 1.49% (2018: 1.65%), and investment in subsidiaries 0.65% (2018: 0.65%).

3.11. Cash and Funds with the Central Bank

Cash and balances with the central bank as at 31.03.2019 amount to RSD 58,026,544 thousand, and represent 14.39% of total Bank's assets (15.85% as at 31.12.2018). Compared to 31.12.2018 the position is lower by RSD 5,569,166 thousand largely as a result of increased investment in securities.

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

3.12. Securities

Investments in securities in the amount of RSD 138,263,235 thousand represent a percentage of share of 34.28% in relation to total assets (2018: 33.20%) and comprise of securities that are measured at fair value through profit and loss in the amount of RSD 9,947,138 thousand and securities measured at fair value through other comprehensive income in the amount of RSD 128,316,097 thousand.
The increase of investing in securities in relation to 2018 was realized by RSD 5,085,637 thousand, and/or 3.82%. The realized growth of RSD 5,085,637 thousand came as a result of increase of securities that are measured at fair value through P&L by RSD 5,137,328 thousand, on one hand and reduction of securities that are measured at fair value through other comprehensive income by RSD 51,691 thousand, on the other hand.

The largest share in the securities structure in RSD is that of the RS bonds (99.15%), followed by investment units of KomBank Money Fund, Beograd (0.85%). Regarding securities in foreign currency, these are made up of RS bonds (95.82%), T-bills of the Republic of Serbia (1.18%) and bonds of foreign banks and countries totalling (3.00%).

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

Loans are shown in the balance sheet at the level of approved loans and advances, less repaid principal and less the impairment provision based on the assessment of specific identified risks for certain loans and risks that are empirically included in the loan portfolio. In assessing the mentioned risks, the management applies the methodology based on full application of IFRS 9.

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

Net positive or negative exchange rate differentials resulting from business transactions in foreign currency and from restating the balance sheet items in foreign currency, were credited or debited, and/or charged to profit and loss account as exchange rate gains or losses.

As at 31.03.2019 the loans and receivables from banks and other financial organisations amount to RSD 16,417,795 thousand with percentage of share of 4.07% of total assets (2018: RSD 18,477,729 thousand) and are lower by RSD 2,059,934 thousand. Reduction compared to 31.12.2018 is largely a result of decrease in short-term loans to other banks.

Loans and receivables from customers as at 31.03.2019 amount to RSD 170,881,986 thousand and with percentage of share of 42.37% of total assets (2018: RSD 167,545,674 thousand) they have a dominant share in structure of assets. Total loans to customers are higher by 1.99% compared to 2018, or RSD 3,336,312 thousand, of which RSD 3,714,112 thousand account for four new loans.

In period January – March 2019 in accordance with the NBS Decision on accounting write-off of balance-sheet assets of banks, the Bank performed a permanent write-off by transferring balance-sheet assets to the off-balance-sheet records in the amount of RSD 107,120 thousand. The permanent write-off did not result in a decrease in balance-sheet assets, given that the write-off was done for the receivables that had been 100% impaired i.e. in full gross amount of carrying value. According to the NBS decision, balance-sheet assets include NPLs that fit the description in the Decision on the classification of balance-sheet assets and off-balance-sheet items.

3.14. Investment in Subsidiaries

Investments in subsidiaries are RSD 2,611,859 thousand and account for 0.65% of total assets.
The ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with subsidiaries, as a part of regular operations. These include primarily loans and deposits.

Investments in subsidiaries as of 31.03.2019 amount to RSD **5.480.888** thousand (gross amount excluding impairment provision) individually per members:

	In **thousand RSD**
KomBank Invest a.d. Beograd	140,000
Komercijalna Banka a.d. Banja Luka	2,974,615
Komercijalna Banka a.d., Podgorica	2,366,273
TOTAL GROSS	**5,480,888**
Impairment provision	(2,869,029)
NET	**2,611,859**

Decrease of the value of investment in subsidiaries was carried out based on the assessment of fair value by the independent appraiser, and the effects recognized in the profit & loss as of 31.12.2016., without changes in the balance sheet and income statement in 2017, 2018 and 2019.

3.15. Other Assets, Intangible Assets, Property and Investment Property, Deferred Tax Assets and Non-Current Assets Held for Sale

All the above items account for 4.24% of total assets, of which the highest percentage relates to property, plant and equipment in amount of 1.68%, other assets in amount of 1.49% and investment property amounting to 0.47%.

Equity investments in banks, foreign and local legal entities as of 31.03.2019 amount to RSD 1,581,222 thousand measured at fair value through other comprehensive income. The largest amount refers to the share in the equity of foreign entities of RSD 1,525,449 thousand and these are shares in the companies MASTER Card International and VISA INC.

Compared to 31.12.2018 when deferred tax assets are netted (net amount 840,967) with deferred tax liabilities during the business year, deferred tax assets and deferred tax liabilities are presented in separate balance sheet positions, i.e. are stated by gross principle in the current fiscal year. As of 31.03.2019 deferred tax assets amount to RSD 1,444,664 thousand, and deferred tax liabilities RSD 530,332 thousand and are stated as liabilities in the balance sheet.

Deferred tax assets as of 31.03.2019 largely comprise deferred tax assets based on transferred tax losses in the amount of RSD 878,000 thousand. These deferred tax assets were booked in 2017 in the amount of RSD 1,235,813 thousand, based on the calculation of planned profit from the business plan for the period 2017 - 2019, and partly (in the amount of RSD 368,667 thousand) they are used for covering corporate income tax for 2017. In 2018 on this basis RSD 641,046 thousand of tax assets were formed and RSD 630,192 thousand were used for covering the corporate income tax for 2018 (net increase of RSD 10,854 thousand). The prescribed deadline for the use of transferred tax losses is 5 years.

An important item in deferred tax assets in the amount of RSD 295,225 thousand are tax assets for temporary non-recognised expenses from property impairment.

In the first quarter of 2019 there was a change in deferred taxes compared to 31.12.2018, only on the basis of change in value of securities, which was stated within the increase of position of tax assets by RSD 11,878 thousand and the reduction of the position of tax liabilities in amount of RSD 61,486 thousand.

LIABILITIES

In period January – March 2019 in the structure of liabilities deposits and other financial liabilities to banks and customers still have a dominant share with total percentage of 79.62% (2018: 80.49%) in total liabilities. The share of capital in total liabilities stands at 17.06% (2018: 16.84%).

Other positions make for 3.32% of total liabilities which mainly refers to the other liabilities with the percentage of 2.63%.

3.16. Deposits and Other Financial Liabilities to Banks, Other Financial Organizations and Central Bank and Deposits to Other Customers

Deposits are shown at the level of deposited amounts, which can be increased by calculated interest, which depends on the contractual relationship between the depositor and the Bank. The Bank agreed the interest rates on deposits depending on the currency, maturity and type of deposits.
FX deposits are shown in Dinars at middle exchange rate of currencies applicable as at the balance sheet date.

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

The most important share in the structure of liabilities is that of the deposits and other financial liabilities to customers in the amount of RSD 316,912,414 thousand which account for 78.59% of total liabilities (2018: 79.08%) and deposits and other financial liabilities towards banks, other financial organizations and the central bank in the amount of RSD 4,138,812 thousand with share of 1.03% (2018: 1.41%).

Total deposits to customers, banks, other financial organizations and central bank amounted to RSD 321,051,226 thousand and compared to 2018 they are lower by RSD 1,840,606 thousand: transaction deposits are one hand lower by RSD 3,593,474 thousand, while other deposits recorded a growth amounting to RSD 1,752,868 thousand, on the other hand. The most significant individual growth on the position other deposits relate to non-purpose deposits in RSD of public and other enterprises.

Reduction in transaction deposits was the result of reduction in dinar transaction deposits amounting to RSD 4,639,339 thousand, while the transaction deposits in foreign currency recorded a growth by RSD 1,045,865 thousand compared to 31.12.2018. In structure of transaction deposits still prevailing are the deposits in local currency with a share of 61.80%, while the remaining 38.20% relate to deposits in foreign currency.

In case of other deposits, deposits in foreign currency with a share of 92.11% are dominant while dinar deposits have a share of 7.89%. Foreign currency savings increased by approximately EUR 20,96 million.

Borrowings

Borrowings, as part of the deposit and other liabilities towards banks and other customers' position, amounted to RSD 1,974,045 thousand with a percentage of share in the total liabilities of 0.49% and they refer to received credit lines in foreign currency. The total position is lower in relation to 2018 by RSD 846,945 thousand mostly as a result of regular and early repayments of foreign credit lines in foreign currency, as follows:

- Early repayments of credit line EAR in the amount of EUR 52,5 thousand and regular repayment in amount of EUR 81 thousand

i.e. regular repayment of credit lines:

- EBRD in amount of EUR 6,000 thousand
- EIB in amount of EUR 669,1 thousand and
- Government of the Republic of Italy in the amount of EUR 331,5 thousand

As at 31.03.2019 the most considerable share in the structure of received loans relate to obligation towards the:

- European Investment Bank (EIB) with percentage of share of 94.90%

Other credit lines have a share of 5.10% and they are composed of:

- Government of the Republic of Italy
- European Agency for Reconstruction and Development (EAR)

3.17. Provisions

Provisions in the amount of RSD 2,247,484 thousand consist of provisions for:

- Covering of potential liabilities (litigations) in the amount of RSD 1,500,639 thousand,
- Long-term employee earnings in the amount of RSD 478,556 thousand and
- Provisions for losses on off-balance sheet assets in the amount of RSD 268,289 thousand.

In the observed period, compared to 2018 there was an increase in provisions amounting to RSD 593,821 thousand, as a result of net increase of provisions on the basis of court disputes by RSD 600,486 thousand on one hand and reduction of provisions for losses on off-balance sheet assets in amount of RSD 6,665 thousand, on the other hand.

Provisions for court disputes

Recognition of the provisions was made on the basis of estimation of future outflows in the amount of claims, including interest and expenses.

For two thousand one hundred thirty seven cases as of 31.03.2019 the total provisions amount to RSD 1,500,639 thousand.

Compared to 31.12.2018 there was a change in the total level of provisions in the net amount of RSD 600,486 thousand. Out of this amount, the change relating to the net costs of provisioning arising from court obligations amounts to RSD 603,649 thousand recognised within the positions of the profit and loss account (reference notes 3.9 and 3.10) while the decrease in the provisions in the amount of RSD 3,163 thousand refers to the use of the provisions for making payments and release of provisions as per final judgements. The increase in the provisions is the result of an additional calculation of interest and exchange rate differences for existing court disputes and the formation of new provisions for 472 new cases.

3.18. Other liabilities

Other liabilities amount to RSD 10,618,362 thousand and compared to 2018 they are higher by RSD 1,558,390 thousand.
The percentage of share of other liabilities in total liabilities is 2.63% (2018: 2.26%). The most important positions of other liabilities are: liabilities from the profit in the amount of RSD 5,442,133 thousand, liabilities in calculation in foreign currency in the amount of RSD 1,739,003 thousand, liabilities based on leasing in amount of RSD 1,229,883 thousand, liabilities for payments by payment cards abroad (VISA inc USA, MasterCard USA) in amount of RSD 295,992 thousand and liabilities for net salaries charged to expenses in the amount of RSD 271,936 thousand.

Increase in other liabilities when compared to 2018 in amount of RSD 1,229,883 thousand mostly relates to increase in liabilities on the basis of recognizing the leasing liabilities in accordance with the requirements of IFRS 16 (reference note 2.2.)

Liabilities from the profit are formed in 2018 on the basis of the decision of the Bank's GMS 6380/3 dated 26.04.2018 on distribution of profit from 2017 and undistributed profit from previous years and in the largest amount refers to liabilities based on dividends on ordinary shares and preference shares in the amount of RSD 2,535,915 thousand. The payment of dividends will be made after obtaining the conditions prescribed by the Law on Banks and in accordance with dividend policy.

3.19. Capital

The Bank's capital comprises the original founding capital, reserves from profit, revaluation reserves, accumulated result and income as the current period result.

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

In conformity with the Bank's founding acts, the Bank's capital consists of the share capital and Bank reserves. The Bank's share capital was formed by initial investments made by the shareholders and later issues of new shares. The shareholders have the right to manage the Bank, as well as the right to participate in the profit distribution.

As of 31.03.2019 the Bank's capital comprises of:

In thousand RSD	2019.	2018.
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from profit	14,223,535	14,223,535
Revaluation reserves	2,245,371	2,006,662
Profit/loss from changes in the value of debt and equity instruments	1,471,053	2,125,496
Actuarial gains	122,579	122,579
Reserves	18,062,538	18,478,272
Accumulated profit	9,047,691	902,509
Profit	1,668,492	8,145,182
Balance as at date	**68,813,271**	**67,560,513**

Upon adopting the decision on distribution of profit by the Bank's GMS (session convened for 24.04.2019) the accumulated profit will be distributed.

Based on the Decision of the Securities Commission of 17 March 2011, the Bank substituted the shares (and/or a stock split) of the nominal value of 10.000,00 Dinars with the shares of a nominal value of 1.000,00 Dinars.

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

The capital adequacy ratio of the Bank as of, as of 31 March 2019, calculated on the basis of the financial statements, equals 27.95 % having implemented the applicable decisions of the National Bank of Serbia for 2019.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 31.03.2019 the pecuniary part of capital is above the prescribed level.

The structure of the share capital – ordinary shares as at 31.03.2019 is as follows:

Shareholder's name	% % stake
The Republic of Serbia	41.75
EBRD, LONDON	24.43
IFC CAPITALIZATION FUND LP	10.15
DEG-DEUTSHE INVESTITIONS	4.60
SWEDFUND INTERNATIONAL	2.30
Jugobanka AD Beograd in bankruptcy	1.91
BDD M&V INVESTMENTS AD BEOGRAD	1.90
Company Dunav insurance	1.73
EAST CAPITAL (lux) BALKAN FUND	1.26
GLOBAL MACRO CAPITAL OPPORTUNITIES	0.78
STANKOM Co DOO BEOGRAD	0.70
GLOBAL MACRO ABSOLUTE RETURN A	0.54
SOCIETE GENER. BANKA SERBIA - Custody account	0.45
FRONT. MARK. OPPORTUN. MASTER	0.41
Others	7.09
	100.00

4. RELATIONS WITH SUBSIDIARIES

4. A . Balance as of 31.03.2019

RECEIVABLES

In thousand RSD

Subsidiaries	Placements and loans	Interests and fees	Other assets	Impairment provision	Net	Off-Balance	Total
1. Kom.banka AD Podgorica	6,648	899	-	93	7,454	-	7,454
2. Kom. banka AD Banja Luka	85,172	25	189	1,049	84,337	1,179,720	1,264,057
3. Kombank INVEST	-	187	-	-	187	200	387
TOTAL:	**91,820**	**1,111**	**189**	**1,142**	**91,978**	**1,179,920**	**1,271,898**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interests and fees	Other liabilities	Total
1. Kom.banka AD Podgorica	589,955	-	1,647	591,602
2. Kom. banka AD Banja Luka	129,650	-	-	129,650
3. Kombank INVEST	54	-	-	54
TOTAL:	**719,659**	**-**	**1,647**	**721,306**

INCOME AND EXPENSES for period 01.01. – 31.03.2019

In thousand RSD

Subsidiaries	Interest income	Fee and commission income and other income	Interest expenses	Fee and commission expenses	Net income / expenses
1. Kom.banka AD Podgorica	16	1,252	-	-	1,268
2. Kom. banka AD Banja Luka	613	1,651	-	(151)	2,113
3. Kombank INVEST	-	451	-	-	451
TOTAL:	**629**	**3,354**	**-**	**(151)**	**3,832**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange losses in the amount of RSD 6,615 thousand.

4. B. Balance as of 31.12.2018

Balance as at 31.12.2018

RECEIVABLES

In thousand RSD

Subsidiaries	Placements and loans	Interests and fees	Other assets	Impairment provision	Net	Off-balance	Total
1. Kom.banka AD Podgorica	6,651	882	-	93	7,440	-	7,440
2. Kom. Banka AD Banja Luka	101,737	25	881	1,261	101,382	1,181,946	1,283,328
3. Kombank INVEST	-	162	-	-	162	200	362
TOTAL	**108,388**	**1,069**	**881**	**1,354**	**108,984**	**1,182,146**	**1,291,130**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interest and fee	Other liabilities	Total
1. Kom.banka AD Podgorica	1,440,473	-	1,651	1,442,124
2. Kom. Banka AD Banja Luka	179,992	-	-	179,992
3. Kombank INVEST	8	-	-	8
TOTAL:	**1,620,473**	**-**	**1,651**	**1,622,124**

INCOME AND EXPENSES for period 01.01. – 31.03.2018

In thousand RSD

Subsidiaries	Interest income	Fee and commission income	Interest expenses	Fee and commissi on expenses	Net income / expenses
1. Kom.banka AD Podgorica	18	582	-	-	600
2. Kom. Banka AD Banja Luka	1,004	1,547	-	(338)	2,213
3. Kombank INVEST	-	289	-	-	289
TOTAL:	**1,022**	**2,418**	**-**	**(338)**	**3,102**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange gains in the amount of RSD 8,068 thousand.

5. RISK MANAGEMENT

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

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

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

The basic objectives that the Bank set for the risk management system within its risk management and capital management strategies are the following: minimizing the negative effects of the financial result and the capital by respecting the defined framework of acceptable risk level, diversification of the risk that the Bank is exposed to, maintaining the required levels of capital adequacy, maintaining the NPL's participation in the total loan to the receiving level for the Bank, maintaining liquidity coverage ratio above the level prescribed by the regulations and internal limits, development of the Bank's activities in accordance with business strategies, opportunities and market development this to gain competitive advantage. The objectives of risk management are in line with the Bank's planning provisions.

Taking into account the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, during the year 2018 the Bank conducted appropriate changes of internal acts which regulate risk management. By amending the Strategy and the Risk Management policies, harmonization with the changes of domestic and international regulations has been made and credit risk management has improved, including non-performing loans.

At the beginning of 2018, the Bank has carried out reconciliation of internal documents (methodologies and procedures) in accordance with changes to the regulations of the National Bank of Serbia from the field of accounting and financial reporting, which introduces the obligation of applying the International Financial Reporting Standard 9 (IFRS 9). The specified changes to the prescribed obligations to banks of January 1, 2018 calculation made in accordance with IFRS 9. In accordance with IFRS 9, the Bank adopted a new Methodology for estimating impairment of on-balance assets and expected credit losses for off-balance sheet items that applies from January 1, 2018.

Risk Management System

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

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

Risk Management Strategy sets out:

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

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Bank.

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

- Organization of the business of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular business activities of the Bank;
- Comprehensive risk management;
- Effectiveness of risk management;
- Cyclical risk management;
- Developing risk management as a strategic commitment;
- Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

- Active risk management;
- Preventive measures and activities aimed at minimizing further deterioration in asset quality;
- Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
- Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
- Assessment of the borrower's financial condition;
- A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
- Segregation of bad assets;
- Principle of materiality in defining possible measures;
- Increased frequency of monitoring the value of collateral and the funds obtained from collection;
- Organizational separation of the Sector for Prevention and Management of Risk Placements;
- Inclusion in corporate governance and risk management of indicators for bad asset tracking;
- Transparent reporting.

Management policies for certain types of risk define in more detail:

- The way of organizing the Bank's risk management process and clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
- The method of assessing the risk profile of the Bank and the methodology for identification and measurement, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the Bank uses and their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
- Measures to mitigate risks and rules for the implementation of these measures;
- Method and methodology for implementing the process of internal capital adequacy assessment of the Bank;
- Principles of functioning of the internal control system;

The framework and frequency of stress testing, as well as treatment in cases of adverse stress test results.

The Bank closely defines risk management process and the responsibilities and responsibilities of all organizational parts of the Banke in the risk magaement system by Risk management procedures.

The Bank has closely prescribed the methods and approaches used in the risk management system by individual methodologies.

Jurisdiction

The Board of Directors is in charge and responsible for the adoption of risk management strategy and strategy and capital management strategy, establishing a system of internal controls in the Bank and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementation of the process of internal capital adequacy assessment, and others.

The Executive Board is competent and responsible for the implementation of risk management strategy and policies and capital management strategies, for adopting risk management procedures, i.e. identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Board of Directors in relation to those activities. Also, the Executive Board analyzes the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to a person related to the Bank, and shall inform the Management Board thereof.

The Audit Committee (*the Banking Supervision Department*) is responsible and responsible for analyzing and monitoring the applied and adequate implementation of the adopted risk management strategies and policies and the internal control system. The Audit Committe report the Board of Directors at least one monthly on its activities and identified irregularities, and proposes the way in which it will be eliminated, propose improvements in risk management policies and procedures and implement the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the Bank's exposure to risks arising from the structure of its balance sheet claims, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Credit Committee decides on credit requirements, as well requirements regarding non-performing exposures, within the framework of the Bank's regulations, analyzes the Bank's exposure to credit, interest and currency risk, analyzes the loan portfolio, and also proposes measures to the Executive Board of the Bank.

The risk management function defines and proposes to adopt the strategy, policies, procedures and risk management methodologies, identify, measure, mitigate, monitor and control and report on the risks to which the Bank is exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the Bank.

The asset management sector is responsible for managing assets and liquidity, as well as in managing the assets and liabilities of the Bank. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for the continuous implementation of an independent evaluation of the risk management system, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit reports the Audit Committe and the Board of Directors on its findings and recommendations.

The business compliance controle function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

Risk Management Process

The Bank regularly measures, or estimates, the risks it identifies in its business. Measurement implies the application of qualitative and quantitative methods and measurement models that enable the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, the Bank determines their significance based on a comprehensive risk assessment inherent in certain Bank's products, products, activities and processes.

Risk mitigation involves diversification, transfer, reduction and / or avoidance of risks, and the Bank implements it in accordance with risk profile, risk aversion and risk tolerance.

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established
by the Bank, which depend on the business strategy and market environment, as well as on the level of risk that the Bank is willing to accept.

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank's organizational structure to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, i.e. safe and stable operation.

Risk management reports are regularly submitted to: the Board of Directors, the Executive Board, the Audit Committee, the Assets and Liabilities Management Committee and the Credit Committee, which contain all the information necessary for the risk assessment and conclusions about the risks that the Bank is exposed to.

Types of Risk

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

5.1. Credit Risk

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

The Bank has defined criteria for loan approval and rescheduling and restructuring of receivables prescribed by its loan approval procedures and methodology.

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

Decisions on credit risk exposure are defined through the decision making system that depends on the type of customer and exposure level. Crediti decision makers are: decision making competent authorities in the Risk Management Function, Credit Committee, Executive Board and Board of Directors.

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

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

The organizational model of the credit risk management system of the Bank ensures adequate communication, information exchange and cooperation at all organizational levels, and also provides a clear, operational and organizational separation of the function of independent risk management and support activities on the one hand, from risk taking activities, on the other hand, i.e. division of duties, competencies and responsibilities. The Bank has also established an adequate information system that implies full information of the persons involved in the credit risk management system and proper reporting of the Bank's management.

Credit Risk Management

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

The level of credit risk exposure acceptable to the Bank is in line with the defined risk management strategy and depends on the Bank's portfolio structure based on which is limited negative effects on the Bank's financial result and capital adequacy.

The basic principles of credit risk management are as follows:

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

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

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

The rating system is not merely an instrument for encasement individual decisions and assessing risk levels of individual investments. Besides the above mentioned, rating system is used for assessing the risk level of whole portfolio, and is also used in process of loan impairment for the purpose loan ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

In addition to the internal rating system, in credit risk analysis the Bank also uses principles prescribed by the National Bank of Serbia, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses. In December 2018, in accordance with the amendments to the regulations of the National Bank of Serbia, adopted the amending regulations that from January 1, 2019 confirms cancellation of calculation of reserves for estimated losses and the required reserves.

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

Basic credit risk alleviating techniques are:

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

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

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

The Bank monitors exposure according to defined limits with the same or similar risk factors, and depending on general economic trends, developments in certain sectors and geographic areas, values stated in the Bank's business plan, and carries out regular review of the defined limits and proposes redefining them in case of changes in risk factors.

By the Decision on Managing Concentration Risk Arising from Bank Exposure to Specific Products, the National Bank of Serbia, from January 1, 2019 banks were obliged to monitor the risk of concentration or exposure of the bank to groups of products, primarily exposure to cash, consumer and other loans granted to households of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

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

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

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

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

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

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

IFRS 9 financial instruments

Starting from January 1, 2018 the Bank applies IFRS 9 standard that has replaced IAS 39 standard. In accordance with IFRS 9 standard financial assets can be classified and evaluated as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI[1] criteria;
- Financial instruments at fair value through other comprehensive income (FVOCI), SPPI fulfilled, but the business model is the collection of contractual cash flows and sales;
- Financial instruments at fair value through profit and loss account (FVTPL).

The Bank's business model is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Bank has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured at amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

Equity instruments, in entities other than subsidiaries that are not held for trading, are classified as assets whose value is measured at fair value through other comprehensive income, with a reclassification of profit and loss through the income statement.

Also, by applying IFRS 9, the Bank calculates impairment for credit placements given to the countries and Central Banks of the Bank's members (for assets not available immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

Identification of problematic and restructured claims

The Bank monitors the quality of the portfolio based on the identification and analysis of early warning signals of clients. Warning signs are continually monitored and based on analysis of those signs, customers are classified into the categories Standard, Potentially risky (Watch list) and NPL clients (clients with problematic claims).

In accordance with the application of IFRS 9, starting from January 1, 2018, the Bank also introduced impairment stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients rank as stage 1, clients identifying credit risk increase (Watch List clients, days past due from 31 days to 90 days) are ranked as stage 2, and NPL clients rank as stage 3. Clients located in stages 1 and 2 are impaired on a group basis, while Stage 3 clients, with the fulfillment of the criteria of material significance, are impaired individually. NPL clients at stage 3, with less material exposure, are impaired on a group basis, while respecting the requirements of IFRS 9 standards in at least two collection scenarios.

Restructured non-problematic customers are classified into the category of potentially risky customers, that is, to stage 2 of impairment, while restructured problematic clients are classified into the category of clients with problematic claims, and are categorized into stage 3 impairment.

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of clients in the Standard category of clients into the category of clients with problematic claims without prior identification of clients as potentially risky and without implementation of preventive actions against risky placements, i.e. mitigation and reduction of credit risk through the implementation of appropriate strategies and action plans. Potentially risky clients are monitored more frequently compared to standard clients and if further increase in credit risk is determined, clients are classified into the category of clients with problematic claims.

[1] Solely Payments of Principal and Interest – SPPI

Problematic claims include all claims that are late in settling liabilities over 90 days, under any material obligation to the Bank (parent company) or subordinated companies, receivables where, on the basis of the financial situation, it is estimated that the borrower will not be able to settle its obligations in completely without taking into account the possibility of implementing credit protection instruments (regardless of whether they are late in settling liabilities), claims for which the amount of the impairment is determined on an individual basis. Problems are also considered as claims based on: termination of recording of interest income, commissions and fees in the income statement specific adjustments for credit risk, which are calculated due to significant deterioration in credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, the restructuring of receivables due to the financial difficulties of the debtor, and the submission of a motion to initiate bankruptcy proceedings against the debtor. Problematic claims include all receivables from the debtor, if one claim is classified as a group of problematic claims.

Restructuring of the claims is approval of concessions, due to financial difficulties of the debtor, regarding the repayment of the individual claims which would not be approved to the debtor if he was not in these difficulties, regardless of whether it has matured obligations, whether the claim is impaired or the default status has occurred. The restructuring is implemented in one of the following ways: by changing the conditions under which the claim arose, particularly if the subsequently agreed repayment terms are more favorable compared to those originally agreed (interest rate reduction, write-off of part of the principal and/or interest, change the due date, etc.) as well as the refinancing of receivables. Such circumstances are often called in practice "forbearance". In addition, receivables that are classified in the category of restructured debts are those for which:

- The change in the contractual terms of repayment is implemented, and those receivables that, in the absence of such changes, would be classified as problematic,
- The change in the contractual terms of repayment debts which led to a complete or partial write-off in a materially significant amount is implemented,
- The Bank has activated the contractual clauses on restructuring on which the repayment conditions are changing due to the occurrence of certain events (embedded clauses) against the debtor whose claim has been already classified in a group of problematic receivables, or would have been so classified that are not activated this clause,
- If the debtor has, at the same time a new claim was approved (or over a short period before or after the approval), made a payment on the basis of other claims of the Bank (or other legal entity to which the ceded claim against the debtor), which was classified or fulfilled the requirements to be classified in group problematic or, in the absence of new claims would be classified in the above group, i.e. fulfilled the requirements.

In accordance with implementing IFRS 9 standard, any restructuring of claims due to financial difficulties is considered to be modified or changed financial asset.

Modifications that cause the derecognition of the old financial assets and initial recognition of the new, and that they were motivated by a drop in the credit standing and repayment capacity, lead to initial recognition financial assets that standard defined as "POCI[2]", i.e. funds that are impairment at the time of initial recognition, and are initially valued at fair value. They do not have at the time of initial recognition impairment, but you must include the expected credit losses during lifetime assets in the calculation of effective interest rates.

Consequently, the Bank includes an initial expected credit losses in estimating cash flows, when Bank calculate a credit-adjusted effective interest rates of financial assets that are considered to be impairment at the time of initial recognition. Also, for purposes of calculation of impairment, this means going for the whole period of duration stay in level 3.

IFRS 9 in the event of a significant modification of a financial instrument, indicates the need to derecognise an old financial asset and recognise the new one at fair value at the date of recognition.

[2] Purchased or Originated Credit-Impaired (POCI)

Termination of recognition leads to a sustained gain or loss recognized in the income statement and an equal difference between the amortized value of an old financial asset and the fair value of a new financial asset minus the amount of expected loan losses recognized as impairment on a new financial asset.

The Bank regularly monitors the measures taken to restructure the risky placements and controls the timing of taking these measures. Monitoring of the measures taken, or the realization of the same, such as settlement of due liabilities, is carried out on a daily basis. Monitoring of restructured business clients is performed regularly every 6 months or more often if necessary. Analysis of financial statements, analysis of indebtedness, verification of adequacy of collaterals and monitoring overall operations, strategy towards individual debtors are the key points of above mentioned monitoring.

Restructured claim which is classified into a group of problematic claims is, after the expiry of one year from the date of its restructuring, classified in the group of claims which are not considered problematic if the following conditions are met:

- Impairment amount of restructured claim has not been determined and the status of default has not occurred;
- During the past 12 months the payments were made on time or with a delay not greater than 30 days, in accordance with the changed conditions of repayment;
- Based on the analysis of the financial condition and creditworthiness of the client, it is estimated that it will be able to settle its obligations in full in accordance with the changed conditions of repayment.

Downgrade Risk

The quality of the Bank's assets is measured by the level of exposure to individual risk categories according to internal rating system criteria. The internal rating system focuses on quantitative and qualitative parameters for assigning customer ratings. The rating scale consists of 5 risk categories that are subdivided into 19 subcategories. Different exposures to the same borrower are grouped in the same credit rating category irrespective of the specificities of different loan types.

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

A low level of risk implies doing business with customers with a high credit rating and is acceptable for the Bank (risk rating categories 1 and 2), increased level of risk implies doing business with customers with operating difficulties that could have a negative impact on the settlement of liabilities (risk rating categories 3 and 4), and a high level of risk characterizes customers with negative operating results and poor credit rating history (risk rating categories 4D, 4DD and 5). Risk category 4 is divided into five sub-categories: 4+, 4 and 4- - non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

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

Risk of Change in Value of Assets – assets delinquency

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

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

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

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

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

Individual and Group Assessment at Stage 3

The Bank assesses impairment of each individually significant loan with default status (risky placement, risk subcategory 4D, 4DD and 5 according to internal rating system) i.e. loans that are classified into level 3 in accordance with IFRS 9 standard. On that occasion the Bank considers the financial position of the loan beneficiary, sustainability of its business plan, its ability to improve performance in the event of financial difficulties, income projections, availability of other financial support and collateral value which can be realized, as well as scheduling of expected cash flows. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfillment of client's obligations towards the Bank, ad hoc assessment of loan impairment is performed.

The threshold of materiality, the Bank determines based on the analysis of value structure of its portfolio by customer and product.

Allowance for impairment on an individual basis is calculated if there is objective evidence of impairment that is a result of one or more events that occurred after the initial recognition of the financial asset, and if there is a measurable reduction in future cash flows.

The following is considered objective evidence indicating the need for loan impairment:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when, due to the financial difficulties of the debtor, the Bank significantly changes the conditions for repayment of claims in relation to those initially contracted;
- The debtor cannot settle his obligations in full without the realization of the collateral;
- continuous blocking of the account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation or some other type of financial reorganization of the borrower) etc.

Evidence can be documented by the analysis in Watch list process, by information about the increased level of risk borrowers.

In addition, the documents required as proof of the impairment of the loan are presented by the evidence for the assessment of the expected inflow from placement, which are primarily related to the documentation on planned future cash flows of the debtor.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the asset and the present value of the estimated future cash flows whereby the Bank recognizes the existence of several possible collection scenarios when assessing the expected future cash flows, in accordance with IFRS 9, which is applicable as of January 1, 2018. On that occasion, scenarios that can be considered are the following scenario from business operations (restructuring/agreement and the like), scenario from the collateral realization (extrajudicial/judicial/bankruptcy and other) and sale of receivables. The probability of a certain scenario the Bank estimates based on the history of the realization and collection of problematic cases, the specifics of an individual client, as well as the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

For a group of less materially significant receivables that are classified in stage 3, when calculating the impairment, there are also several collection scenarios that are applied with certain probabilities, where these probabilities are calculated on the basis of statistical models using historical collection information.

Group Assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and are stage 1 - standard clients and stage 2 - clients with identified credit risk increase, as well as receivables based on commissions and other receivables that are not reduced to the present value.
Group assessment is carried out by groups with similar characteristics in terms of credit risk which are formed on the basis of internally prescribed methodologies (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system, on a monthly basis. The loan loss impairment methodology has been significantly changed and instead IAS 39's incurred loss approach, forward-looking expected loss (ECL) approach is applied, in accordance with IFRS 9, through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies.

In accordance with IFRS 9, the impairment is measured as follows:

- Stage 1 – Loans in which no deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the 12-month expected credit losses;
- Stage 2 – Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the expected credit losses for the entire life of the instrument.

The cost of impairment of financial instruments that are not considered to have significant credit risk deterioration are calculated on the basis of 12-month expected losses (ECL). Stage 1 includes exposures to the State and Central Banks of the Bank's members and other exposures with a credit risk weight of 0, in accordance with the Bank's Capital Adequacy Resolution, except for the exposure on the reserve requirement and similar exposures, on the basis of which the expected credit losses amount to 0.

All financial instruments in which credit risk exacerbation has been carried out are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the entire life of the instrument.

The Bank considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, overtime of over 30 days, and the like).

The Bank calculates the cost of impairment of debt securities that are valued at fair value through other comprehensive income (FVOCI), as the accumulated amount of impairment that also affects the Income Statement. However, the expected credit losses do not reduce the amount of gross financial assets in the balance sheet.

For the corporate and retail sectors, the Bank calculates the expected credit losses (impairment) in the following way:

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

- ECL Expected credit loss
- EAD Exposure at default
- MPD Marginal Probability of default
- LGD Loss given default)
- DF EIR based discount factor

This formula is used to calculate the expected credit losses (impairments) at stages 1 and 2, along with respect to the time horizon.

EAD, that is, the exposure at default, represents an estimate of the carrying amount in accordance with IFRS 9 at the time of default, taking into account the profile of contracted cash flows and the possible use of funds from approved credit lines before the default moment.

Exposure at default (EAD) represents the gross carrying amount of financial instruments is subject to impairment calculation, taking into account the ability of the client to increase its exposure at default.

For the calculation of EAD for stage 1, the Bank assesses the possibility of default within 12 months for the calculation of a twelve month expected credit loss (ECL), that is, the impairment for a loan in the stage 1 is calculated, which is expected to result in payment inability of obligations in the period of 12 months from the balance sheet date. For stage 2, exposure to non-fullfilment of payment liabilities is required to be considered over the life of instrument.

PD represents an estimation of the probability of default in a given period of time. Failure to fulfill obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Bank is still exposed. Based on historical data, the Bank calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...). After calculating historical PDs, the Bank includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

To calculate impairment for Stage 1, the Bank uses one-year PDs for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Bank uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year. The cumulative PD refers to the default probability that will occur with the period t. The probability that the default will be realized before or at the end of maturity T corresponds to the lifetime PD, ie the probability of default for the entire life of the financial instrument.

PD parameters are updated semi-annually (for the dates of 30 June and 31 December) and are applied in the next half of the year, except for 31 December when PD parameter is applied for 31 December.
LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD. The Bank, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument. In that sense, the Bank applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Bank takes into account all internally available collaterals where there is an estimate of the probability of collectability.

The final step in calculating the impairment is the discount factor - **DF** for the purpose of reducing to the present value. For discounting, the initial effective interest rate is used, which includes only those interest and fees that can be identified as direct income of the Bank. At stage 2, the period of discounting depends on the duration of the financial asset, while at stage 1, the time factor is always equal to one year (12 months).

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Bank uses a different method of calculating impairment. The Bank does not have an adequate history in terms of migration and default exposure to countries and financial institutions. When assessing the impairment and default risk exposure towards securities issued by the Goverment and its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency. It then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation. The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

$$CPD_t = 1 - e^{-(default\ rate * t)}$$

The values of the annual rate of PD used in the calculation of the impairment of securities and financial institutions are reduced to monthly level.

For LGD unsecured the parameter used is prescribed for exposures to countries and financial organizations, in accordance with Basel standards. LGD secured (if there is a collateral) is used in the same way as in the corporate and retail sector.

Impairment of placements to the corporate and retail, countries and financial institutions reduces the value of placements and is recognized as an expense within the income statement, and impairment of securities is recorded through other comprehensive income.

Assessment of Provisions for Losses on Off-Balance Sheet Items

Assessment of provisions for losses on off-balance sheet items (contingent liabilities – payment and performance guarantees, letters of credit, and other off-balance sheet items) is performed when it is estimated that it is fairly certain that an outflow of assets will be required to settle contingent liabilities and the borrower is classified in stage 3. Also, for stages 1 and 2, the Bank establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for stage 1 and stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Bank reduces exposure for the Credit Conversion Factor (CCF). In accordance with IFRS 9, the Bank calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the Bank uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the National Bbank of Serbia – Decision on the Classification of Bank Balance Sheet assets and Off-Balance Sheet Items and Decision on Capital Adequacy of Banks. For unused commitments for which the Bank has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the Bank does not account for provisions based on unused commitments.

The probable loss on off-balance sheet items is recognized as an expense in the income statement.

Means of protection against credit risk (collaterals)

In order to protect against credit risk exposure, a common practice that the Bank uses, in addition to regular monitoring of the borrower's business is the provision of security instruments (collateral), which ensure the collection of receivables and minimize credit risk. The amount and type of collateral depends on the assessment of credit risk of the counterparty.

As a standard collaterals Bank accepts contractual authorizations and bills from clients, while as an additional instrument, depending on the assessment of credit risk, and the types of loans, following instruments can be agreed:

- For commercial loans or corporate loans and loans for small businesses - pledge over movable and immovable assets (mortgages), deposits, bank, corporate and government guarantees, sureties, pledge over securities, stocks and receivables;
- For retail loans - mortgages on immovable properties, deposits, sureties, insurance from National corporation for insurance of housing loans and more;
- For borrowed securities and repurchase agreements - money or securities.

When assessing property or pledges over movable property, the Bank provides expert and independent assessment of the value of real estate by authorized appraiser, to reduce the potential risk of unrealistic valuation to a minimum. The premises, supplies, equipment and other movable property which is the subject of the pledge must be insured by an insurance company acceptable to the Bank, and the insurance policies must be endorsed in favor of the Bank.

In order to protect against changes in the market value of the collateral (mortgage, pledge, securities, etc.), the estimated value of collateral is adjusted for a defined percentage (haircut) depending on the type of collateral and the location, which is regularly reviewed and revised. In this way, the Bank protects itself from potential losses arising from the inability to collect receivables from collateral.

The correction factor (haircut) is the difference between the estimated value of collateral and the proceeds that can be realized by selling the collateral in the process of collection. Haircut reduces estimated market value of any collateral to the expected value that will be charged for its implementation in the future, and taking into account the volatility of the market value and the possibility of realizing cash outflows based on activation fee and sales (court costs, tax costs charged to seller, consultants and advertising costs and other costs), the expected decline in market value since the assessment time until the time of the planned realization, and the inherent uncertainty in determining the value.

The Bank pays attention to regular assessment/valuation of collateral. For performing loans (standard clients) - stage 1 and clients on the Watch list - stage 2, mortgages on residential and commercial property are assessed at least once every three years by a licensed appraiser. For non-performing loans (NPE) - stage 3, a mortgage on a residential property is assessed at least once every three years, mortgages on office buildings (offices, shops, warehouses, building land with and without planning permission, agricultural land, etc.) at least once every 18 months, a mortgage on the industrial facilities are evaluated at least once a year (12 months), by a certified appraiser. Securities are assessed on a monthly basis, for all loans.

Regular monitoring of real estate involves checking the value of real estate on the basis of available data and information, the comparison of the value of the real estate from Bank's portfolio with movements in the market value in the Republic of Serbia market (realized sales, supply and demand) by the regions listed in the catalog of collateral, the use of statistical models, etc. For all the business real estates, the Bank conducts verification of value at least once a year, and for housing and other real estate at least once every three years.

The value of the collateral and the tendency of movement of its value, the Bank monitors and updates to reduce the potential risk of unrealistic valuation to a minimum, and, if necessary, it may request additional collateral in accordance with the agreement. Collateral represent a secondary source of collection of receivables.

5.1.1. Maximum Credit Risk Exposure

The total exposure to credit risk on March 31, 2019 and December 31, 2018 is presented in the next review, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

(000) RSD

	31.03.2019.		31.12.2018	
	Gross	Net	Gross	Net
I. Assets	**429,998,035**	**403,260,675**	**427,668,873**	**401,165,980**
Cash and cash funds held with the central bank	58,026,544	58,026,544	63,595,710	63,595,710
Loans and receivables due from banks and other financial institutions	16,637,654	16,417,793	18,705,766	18,477,729
Loans and receivables due from customers	185,027,782	170,881,989	181,694,980	167,545,674
Financial assets	138,266,147	138,264,619	133,183,262	133,181,667
Other assets	8,040,116	5,994,453	8,657,056	6,612,268
Non-montary assets	23,999,792	13,675,277	21,832,099	11,752,932
II. Off-Balance Sheet Items	**43,337,492**	**43,069,204**	**42,261,680**	**41,986,725**
Payment guarantees	4,036,589	3,975,561	3,107,502	3,037,138
Performance bonds	2,947,195	2,904,188	3,004,569	2,962,498
Irrevocable commitments	35,971,752	35,835,556	35,783,262	35,646,780
Other items	381,956	353,899	366,347	340,309
Total (I+II)	**473,335,527**	**446,329,879**	**469,930,553**	**443,152,705**

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

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

31.03.2019.	Stage 1	Stage 2	Stage 3	Total	Impairment of Stage 1	Impairment of Stage 2	Impairment of Stage 3	Total impairment	Net
Housing Loans	37,782,390	744,231	1,476,646	40,003,267	31,593	17,435	689,256	738,284	39,264,983
Cash Loans	30,676,143	386,127	259,770	31,322,040	101,876	18,586	178,397	298,859	31,023,181
Agricultural Loans	8,520,537	135,221	282,793	8,938,552	66,107	8,044	143,111	217,262	8,721,290
Oher Loans	5,081,268	64,812	195,598	5,341,678	31,431	1,754	184,680	217,864	5,123,814
Micro business	8,806,747	177,743	669,480	9,653,970	120,323	5,466	296,825	422,614	9,231,356
Total Retail	**90,867,085**	**1,508,134**	**2,884,287**	**95,259,506**	**351,330**	**51,284**	**1,492,270**	**1,894,883**	**93,364,623**
Large corporate clients	34,737,112	1,329,693	11,633,218	47,700,023	300,415	61,733	7,969,187	8,331,335	39,368,687
Middle corporate clients	7,268,716	216,452	1,913,732	9,398,899	75,746	384	1,300,934	1,377,064	8,021,835
Small corporate clients	3,721,719	83,843	1,192,278	4,997,840	39,247	533	636,846	676,626	4,321,215
State owned clients	12,933,986	1,421,582	489,080	14,844,648	101,393	29,796	142,253	273,442	14,571,206
Other	11,419,098	-	1,407,768	12,826,866	187,675	-	1,404,768	1,592,443	11,234,422
Total Corporate	**70,080,631**	**3,051,570**	**16,636,075**	**89,768,276**	**704,476**	**92,446**	**11,453,987**	**12,250,910**	**77,517,366**
Total	**160,947,716**	4,559,704	**19,520,362**	185,027,782	**1,055,806**	**143,730**	**12,946,257**	**14,145,793**	**170,881,989**
Due from Banks	**16,423,062**	**-**	**214,592**	**16,637,654**	**6,022**	**-**	**213,840**	**219,861**	**16,417,793**

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

31.12.2018	Stage 1	Stage 2	Stage 3	Total	Impairment of Stage 1	Impairment of Stage 2	Impairment of Stage 3	Total impairment	Net
Housing Loans	37,397,786	654,204	1,521,937	39,573,927	32,149	18,803	722,406	773,358	38,800,570
Cash Loans	30,038,802	289,400	226,782	30,554,984	98,846	13,125	153,963	265,933	30,289,051
Agricultural Loans	8,357,877	91,169	263,341	8,712,387	60,893	3,809	138,525	203,227	8,509,160
Oher Loans	5,193,080	56,258	179,373	5,428,711	31,736	1,384	167,551	200,671	5,228,039
Micro business	8,694,031	115,982	656,885	9,466,898	120,679	4,018	317,218	441,915	9,024,982
Total Retail	**89,681,576**	**1,207,013**	**2,848,318**	**93,736,907**	**344,303**	**41,139**	**1,499,663**	**1,885,105**	**91,851,802**
Large corporate clients	33,953,918	1,658,522	11,595,741	47,208,181	310,263	197,878	7,901,653	8,409,794	38,798,387
Middle corporate clients	6,995,710	211,590	1,935,944	9,143,244	67,366	3,164	1,287,520	1,358,050	7,785,194
Small corporate clients	3,458,723	121,341	1,207,560	4,787,624	36,736	631	632,196	669,563	4,118,060
State owned clients	12,989,199	132,086	503,850	13,625,135	86,779	4,870	139,220	230,869	13,394,267
Other	11,788,352	-	1,405,537	13,193,890	190,800	-	1,405,126	1,595,926	11,597,963
Total Corporate	**69,185,902**	**2,123,539**	**16,648,632**	**87,958,073**	**691,944**	**206,543**	**11,365,715**	**12,264,202**	**75,693,871**
Total	**158,867,478**	**3,330,552**	**19,496,950**	**181,694,980**	**1,036,247**	**247,682**	**12,865,378**	**14,149,307**	**167,545,673**
Due from Banks	**18,494,474**	**-**	**211,292**	**18,705,766**	**16,745**	**-**	**211,292**	**228,037**	**18,477,729**

Problematic loans and receivables – stage 3

Problematic loans and receivables are those loans and receivables for which the Bank has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of due principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default (risk sub-category 4D and 4DD according to the internal rating system and risk categoriy 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset and if there is a measurable decrease in future cash flows. Also, problematic loans include less materially significant stage 3 loans, and their impairment calculation is done on a group basis in accordance with the requirements of IFRS 9.

Non-problematic loans and receivables – stages 1 and 2

For non-problematic receivables (rating categories 1, 2, 3 and subcategory 4), impairment is assessed on a group level (non-impaired receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly level.

The impairment assessment on a group basis is based on the expected credit loss in accordance with probability unfulfilled commitments over the next 12 months (claims in level 1), unless there is a significant deterioration of credit risks in relation to the time of the initial recognition, when you estimate credit losses made on the basis of the probability of the unfulfilled obligations for a period of life of the instrument (claims at level 2). By appreciating specificity in dealings with clients, in particular establishes the migration for economic.

5.1.2 Non-Performing Receivables, Stage 3

(000) RSD

31.3.2019	Gross Exposure	Gross Value Adjustment	Stage 3	Stage 3 -Restructured Loans	Impairment of Stage 3	Participation of Impaired Loans in Total Loans (%)	Collateral for Impaired Loans
Retail	**95,259,506**	**1,894,883**	**2,884,287**	**854,337**	**1,492,270**	**3,03%**	**2,550,115**
Housing Loans	40,003,267	738,284	1,476,646	438,698	689,256	3,69%	1,466,955
Cash Loans	31,322,040	298,859	259,770	28,842	178,397	0,83%	158,916
Agricultural Loans	8,938,552	217,262	282,793	15,580	143,111	3,16%	254,093
Oher Loans	5,341,678	217,864	195,598	-	184,680	3,66%	1,088
Micro business	9,653,970	422,614	669,480	371,217	296,825	6,93%	669,063
Corporate	**89,768,275**	**12,250,910**	**16,636,075**	**12,185,813**	**11,453,987**	**18,53%**	**15,053,548**
Agricultural Loans	5,001,160	126,328	204,469	-	102,098	4,09%	204,637
Manufacturing Industry	14,297,799	2,436,643	4,170,060	3,829,450	2,342,724	29,17%	4,170,060
Electricity	162,698	3,519	17,140	-	12	10,53%	17,140
Construction Loans	9,067,580	1,069,141	1,665,252	839,150	1,021,541	18,36%	1,659,372
Wholesale and Retal	24,098,426	988,998	1,837,960	1,560,134	718,707	7,63%	1,831,685
Services Loans	7,748,495	1,288,957	1,509,632	1,498,529	1,207,205	19,48%	1,509,632
Real Estate Loans	7.836.082	3,184,284	4,023,194	3,681,122	3,154,924	51,34%	4,023,510
Other	21,556,034	3,153,039	3,208,370	777,429	2,906,776	14,88%	1,637,514
Total	**185,027,782**	**14,145,793**	**19,520,362**	**13,040,151**	**12,946,257**	**10,55%**	**17,603,662**
Due from Banks	16,637,654	219,861	214,592	-	213,840	1,29%	-

(000) RSD

31.12.2018	Gross Exposure	Gross Value Adjustment	Stage 3	Stage 3 - Restructured Loans	Impairment of Stage 3	Participation of Impaired Loans in Total Loans (%)	Collateral for Impaired Loans
Retail	**93,736,907**	**1,885,105**	**2,848,318**	**856,108**	**1,499,664**	**3,04%**	**2,539,572**
Housing Loans	39,573,928	773,359	1,521,938	439,228	722,407	3,85%	1,511,459
Cash Loans	30,554,984	265,933	226,782	28,097	153,963	0,74%	132,048
Agricultural Loans	8,712,387	203,227	263,341	16,409	138,525	3,02%	237,991
Oher Loans	5,428,711	200,671	179,373	-	167,551	3,30%	1,191
Micro business	9,466,897	441,915	656,884	372,374	317,218	6,94%	656,883
Corporate	**87,958,074**	**12,264,202**	**16,648,632**	**12,241,214**	**11,365,714**	**18,93%**	**14,951,036**
Agricultural Loans	5,368,696	114,450	222,617	13,411	85,212	4,15%	222,785
Manufacturing Industry	14,604,683	2,420,833	4,160,130	3,818,420	2,322,335	28,48%	4,154,270
Electricity	99,306	3,105	27,298	-	19	27,49%	27,298
Construction Loans	7,781,109	1,205,744	1,592,833	832,676	998,515	20,47%	1,593,206
Wholesale and Retal	23,677,087	901,765	1,875,109	1,612,891	651,402	7,92%	1,868,834
Services Loans	7,280,885	1,223,932	1,494,901	1,477,865	1,187,702	20,53%	1,494,901
Real Estate Loans	4.699.746	729,500	1,323,324	983,040	704,066	28,16%	-
Other	24,446,562	5,664,873	5,952,420	3,502,911	5,416,463	24,35%	4,265,943
Total	**181,694,981**	**14,149,307**	**19,496,950**	**13,097,322**	**12,865,378**	**10,73%**	**17,490,608**
Due from Banks	**18,705,766**	**228,037**	**211,292**	**-**	**211,292**	**1,13%**	**-**

5.1.3 Performing Receivables

(000) RSD

	31.03.2019.				31.12.2018.			
	Low (IR 1,2)	Medium (IR 3,4)	Total	Value of Collaterals	Low (IR 1,2)	Medium (IR 3,4)	Total	Value of Collaterals
Housing Loans	38,438,909	87,712	38,526,621	38,312,224	37,897,797	154,193	38,051,990	37,867,041
Cash Loans	30,743,790	318,480	31,062,270	11,545,843	30,006,894	321,308	30,328,202	6,122,364
Agricultural Loans	8,591,819	63,939	8,655,759	6,823,883	8,419,685	29,361	8,449,046	6,617,026
Other	5,107,617	38,462	5,146,080	84,991	5,211,496	37,842	5,249,338	91,821
Micro Busines	8,590,257	394,232	8,984,490	8,972,906	8,414,374	395,639	8,810,013	8,804,246
Total Retail	**91,472,393**	**902,826**	**92,375,219**	**65,739,847**	**89,950,246**	**938,343**	**90,888,589**	**59,502,500**
Large corporate clients	31,874,702	4,192,103	36,066,805	36,127,224	30,369,732	5,242,708	35,612,440	32,707,216
Middle corporate clients	7,414,387	70,781	7,485,167	7,476,901	7,100,191	107,110	7,207,301	7,044,748
Small corporate clients	3,778,479	27,084	3,805,562	3,805,585	3,521,734	58,329	3,580,063	3,632,286
State owned clients	11,627,310	2,728,358	14,355,668	11,094,210	10,926,175	2,195,210	13,121,386	10,060,358
Other	11,418,944	53	11,418,997	8,531,748	11,788,160	92	11,788,252	8,742,174
Total Corporate	**66,113,822**	**7,018,379**	**73,132,201**	**67,035,668**	**63,705,993**	**7,603,449**	**71,309,442**	**62,186,782**
Total	**157,586,215**	**7,921,205**	**165,507,420**	**132,775,514**	**153,656,238**	**8,541,792**	**162,198,031**	**121,689,281**
Due from Banks	**16,423,062**	**-**	16,423,062	**-**	**18,494,474**	**-**	**18,494,474**	-

5.1.4 Restructured Receivables

Measures implemented by the Bank during the restructuring of loans

The Bank carries out various restructuring measures, depending on the client's needs, respecting the interests of the Bank with a complete understanding of the business, financial and collateral position of client.

The measures most often taken by the Bank during the restructuring of loans are:

- Extension of the maturity date, which is usually accompanied also by adjusting the interest rate that is adjusted to the financial situation of clients,
- The introduction of a grace period or moratorium on settlement of liabilities within a specified period,
- Capitalization of maturity, if there are outstanding liabilities due to date, those are in the process of restructuring returned to claims not due, i.e. new initial balance of claim is formed.
- Refinancing of receivables - in justified cases it is possible to carry out refinancing of receivables from other creditors in order to improve the Bank's position (collateral or financial, by approving more favorable conditions of payment)
- Partial write-off - in the past the Bank has not implemented a partial write-offs during the restructuring, but in the coming period, the Bank will carefully consider the justification of such measure in the restructuring process if it is reasonable, in order to reduce the debtor's obligations to the real level that can be repaid from cash flow, which will certainly be analyzed comparatively, and collateral position of the Bank with the screening of collection options, to enable the Bank to collect its claim to the maximum possible amount.
- converting debt into equity - also not done in the past, but in the coming period will be done by an individual assessment of the justification of implementing this measure, if it is the only possibility of conducting the restructuring of the Bank, i.e. the collection of receivables.

Those measures can be implemented individually or by implementing more measures depending on each individual restructuring process.

5.1.5. Concentration Risk

The Bank manages concentration risk by establishing a system of limits to the exposures with the same or similar risk factors (industry sectors/activities, product types, geographic regions, single entities or groups of related entities, collaterals…). Establishment of appropriate exposure limits is the basis for concentration risk control with the aim of loan portfolio diversification. The Bank on an annual basis, depending on market trends, risk appetite, business policy and annual business plan, reviews and if necessary changes internally set limits.

Depending on general economic trends and developments in individual industrial sectors, the Bank diversifies its investments in industrial sectors that are resistant to the impact of adverse economic developments.

In 2019, the Bank introduced a new indicator of the concentration risk (in accordance with the NBS regulations) based on exposure to certain types of products that includes a portfolio of cash, consumer and other loans (which are not residential or minus per current accounts), contracted maturity longer than 8 years.

5.2. Liquidity Risk

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

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

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

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

In order to minimize liquidity risk, the Bank:

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

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

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

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

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

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

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

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

The Bank's operations are reconciled daily with legally prescribed liquidity ratio and rigid/cash liquidity ratio. The legally prescribed minimum and maximum values for these ratios are defined for one working day, three consecutive working days and average for all working days within a month. During the firstquartet 2019, the Bank's liquidity and rigid liquidity ratios were significantly in excess of the prescribed limits.

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

The Bank also adjust its operation with the regulated indicator of liquidity coverage ratio, which maintains at a level not lower than 100%.

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquid Assets Coverage	
	31.03.2019	31.12.2018.	31.03.2019	31.12.2018.	31.03.2019	31.12.2018
As at 30th	4.36	3.86	4.17	3.56	406%	395%
Average for the period	4.36	4.38	4.04	4.10	424%	444%
Maximum for the period	4.75	4.92	4.43	4.68	450%	495%
Minimum for the period	3.95	3.19	3.58	2.94	406%	388%

During the first quarter 2019, the liquidity indicator, the narrow liquidity indicator and the indicator of liquid assets coverage ranged considerably above the defined limits.

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

Compliance with last day liquidity ratio limits internally defined:

	Limits	31.03.2019.	31.12.2018.
GAP up to 1 month / Total assets	Max (10%)	(3.31%)	1.57%
Cumulative GAP up to 3 months / Total assets	Max (20%)	(1.33%)	1.85%

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

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

The Bank collects deposits of corporate and retail customers which commonly have shorter maturity periods and can be withdrawn at the client request. Short-term nature of such deposits increases the bank's liquidity risk and requires active liquidity risk management and constant monitoring of market trends.
In near term, the Bank manages liquidity risk by monitoring and controlling items in all major currencies in order to identify the needs for additional funding in a timely manner in case of maturities of certain items, i.e. in the long term, the Bank plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves.

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

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

5.3. Market Risk

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

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

5.3.1. Interest Risk

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

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

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

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

The Bank estimates the impact that could have standardized interest rate shock (parallel positive and negative shift of interest rates on the reference yield curve by 200 basis points) for each significant currency individually and for all other currencies together.

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

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

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

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

Minimizing interest rate risk means maintaining this risk at a level that is acceptable for the Bank's risk profile. Alleviating interest rate risk refers to the process of defining the systems of limited exposure of the Bank to the interest rate risk and implementing measures for interest rate risk mitigation.

Control and monitoring of interest rate risk entails the process of monitoring compliance with the established system of limits as well as monitoring defined measures for reducing the Bank's exposure to the interest rate risk. Control of interest rate risk refers to control on all management levels as well as an independent control system implemented by the organizational units responsible for internal audit and compliance monitoring.

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

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

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

	Limits	31.03.2019	31.12.2018
Relative GAP	Max 15%	2.03%	2.01%
Mismatch ratio	0.75 – 1.25	1.02	1.02

During the firt three quarter into2018, interest rate risk indicators moved within internally defined limits.

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

Compliance with internally defined limits of economic value of equity:

	31.03.2019	31.12.2018
As at	5.49%	4.30%
Average for the year	5.31%	4.77%
Maximum for the year	5.56%	5.72%
Minimum for the year	4.89%	4.00%
Limit	**20%**	**20%**

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

5.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

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

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

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

	31.03.2019	31.12.2018
Total currency risk balance	1,836,651	1,064,940
Currency risk ratio	3.3%	1.9%
Legally-defined limit	20%	20%

5.4. Operational Risk

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

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

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

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

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

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

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

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

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

5.5. The Bank's Investment Risks

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

5.6. Exposure Risk

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

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

- The Bank's exposure to a single entity or a group of related entities cannot exceed 25% of the Bank's equity;
- The aggregate amount (sum) of the Bank's large exposures cannot exceed 400% of the Bank's equity.

Defined exposure limits to a single entity or a group of related entities also relate to entities associated to the Bank.

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

5.7. Country Risk

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

- Political and economic risk relates to the likelihood of losses due to the inability to collect the Bank's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;
- Transfer risk relates to the probability of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

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

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

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

5.8. Capital management

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

The calculation of the amount of capital and capital adequacy ratios is reconciled with the Basel III regulatory standards as of June 30, 2017.

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

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

The Bank's regulatory capital represents the sum of the Tier 1 Capital (Common Equity Tier 1 - CET1 Capital and Additional Tier 1 Capital) and Tier 2 Capital, reduced for deductible items. The capital adequacy ratios represent the Bank's capital (total capital, Tier 1 capital and Common Equity Tier 1 capital) relative to the sum of: risk weighted exposure amounts for credit, counterparty, dilution risks and free deliveries; risk weighted exposure amount for settlement/delivery (except for free deliveries); risk weighted exposure amount for market risks; for operational risk; for credit valuation adjustment and risk weighted exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty, dilution risks and free deliveries are determined according to risk weights prescribed for all types of assets. Risk weighted exposure amount for operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line.

Capital adequacy ratio	**31.03.2019.**	**(000) RSD 31.12.2018.**
Tier 1 (T1) Capital	58,097,088	58,512,822
Common Equity Tier 1 (CET1) Capital	57,723,578	58,139,312
Additional Tier 1 (AT1) Capital	373,510	373,510
Tier 2 (T2) Capital	-	-
Deductible items	(1,664,523)	(1,473,139)
Capital	**56,432,564**	**57,039,683**
Credit risk-weighted assets	164,046,967	161,828,271
Operational risk exposure	32,768,254	31,379,213
Foreign currency risk exposure	5,071,562	2,281,232
Capital adequacy ratio (min. 14.24%)	**27.95%**	**29.18%**
Share capital adequacy ratio (min. 12.24%)	**27.95%**	**29.18%**
Basic share capital adequacy ratio (min. 10.74%)	**27.77%**	**28.99%**

During the first quarter of 2019, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of the adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively).

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

During Q1 2019, the Bank also calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of Tier 1 capital and the amount of risk weighted exposures that are included in the calculation of the ratio.

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

- strategic goals and the period for their realization;
- a description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- procedures for planning an adequate level of available internal capital;
- the way to reach and maintain an adequate level of available internal capital;
- restrictions on available internal capital;
- demonstrating and explaining the effects of stress testing on internal capital requirements;
- allocation of capital;
- business plan in case of occurrence of unforeseen events.

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

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

- it is based on risk identification and measurement;
- it provides comprehensive assessment and monitoring of risks the Bank is or may be exposed to;
- it provides adequate level of internally available capital according to the Bank’s risk profile,
- it is included in the Bank’s management system and decision making process; and
- it is subject to regular analysis, supervision and review.

Stages of the internal capital adequacy assessment include the following:

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

6. EVENTS AFTER THE BALANCE SHEET DATE

On 24.04.2019 the regular General Meeting of Bank's Shareholders was held, at which the following decisions were adopted:

- Decision on Adopting the Annual Report on Operations of Komercijalna banka AD Beograd and regular financial statements with the opinion of the external auditor for the year 2018,
- Decision on Adopting the Annual Report on Operations and Consolidated Financial Statements of Komercijalna banka AD Beograd Group with the opinion of the external auditor for the year 2018,
- Decision on allocation of profit from 2018 and unallocated profit from previous years,
- Decision on changes in composition of the Bank's Board of Directors of Komercijalna banka AD Beograd.

On 16.04.2019 the Government of the Republic of Serbia adopted the Draft Law on Conversion of Housing Loans Indexed in CHF and forwarded the same to the National Assembly of the Republic of Serbia for adoption.

7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet positions in Dinars (RSD) on 31 March 2019 and 31 December 2018 for certain main currencies are as follows:

Currencies	Official NBS exchange rate 2019.	2018.
USD	105.0040	103.3893
EUR	117.9720	118.1946
CHF	105.4451	104.9779

In Belgrade,

On 14.05.2019.

Persons responsible for preparation of the financial statements

БЕОГРАД
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STATEMENT

In our opinion, quarterly financial statements for the period 01.01.2019 to 31.03.2019. present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the International Accounting Standards and International Financial Reporting Standards (IAS and IFRS).

Persons responsible for the preparation of financial statements

Sanja Đeković	Miroslav Perić, PhD
Đeković	
Executive Director for Finance and Accounting	Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
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STATEMENT

Individual financial statements of Komercijalna banka AD Beograd for the period 01.01.2019. until 31.03.2019. have not been audited.

In accordance with the Law on Accounting, the Law on Banks and other relevant bylaws of the National Bank of Serbia, Komercijalna Banka AD Belgrade only audits the annual financial statements.

The statement is made in accordance with Article 52, paragraph 7 of the Law on the Capital Market.

Persons responsible for the preparation of financial statements

Sanja Đeković	Miroslav Perić, PhD
Executive Director for Finance and Accounting	Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА А.Д. БЕОГРАД * БЕОГРАД *