QUARTERLY REPORT OF KOMERCIJALNA BANKA AD BEOGRAD FOR Q2 2020

Belgrade, August 2020

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REPORT ON THE BANK'S BUSINESS RESULTS FOR THE SECOND QUARTER 2020

Belgrade, August 2020

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1. OVERVIEW OF THE KEY PERFORMANCE INDICATORS IN THE PERIOD FROM 01.01. TO 30.06.2020

Quarterly report for the second quarter of 2020 is a valid overview of the development and the results of operation of Komercijalna banka AD Beograd realized in the second quarter, as well as in the first six months of 2020.

ITEM	30.06.20.	31.05.20.	30.04.20.	31.03.20.	2019.	2018.
P&L (000 RSD)						
Profit/loss before tax	2.909.821	2.491.107	1.978.804	2.268.139	8.268.685	8.121.073
Profit/loss after tax	2.768.324	2.491.107	1.978.804	2.268.139	8.955.759	8.145.182
Net interest income	5.951.544	4.964.270	3.987.502	3.040.103	12.605.384	12.834.638
Net fee income	2.379.936	1.915.467	1.536.995	1.199.215	5.328.996	5.210.149
Operating expenses	5.870.338	5.044.633	4.214.438	2.548.033	11.064.609	10.473.783
Net income/expenses of impairment of financial assets not measured at fair value through P&L	(99.159)	26.400	33.088	5.962	2.425.931	9.493

ITEM	30.06.20.	31.05.20.	30.04.20.	31.03.20.	2019.	2018.
BALANCE SHEET (000 RSD)						
Balance-sheet assets	457.621.394	450.400.069	444.395.616	442.107.977	432.380.443	401.165.980
Off-balance-sheet operations	488.788.348	489.473.634	481.983.917	475.765.325	460.440.031	457.820.050
RETAIL						
Loans[1]	105.274.157	100.586.486	99.224.147	99.472.706	99.057.214	92.033.605
Deposits[2]	295.757.261	291.539.498	287.156.302	280.489.943	280.484.488	260.296.411
CORPORATE						
Loans	83.068.789	83.840.256	84.744.528	82.068.479	81.504.403	75.264.373
Deposits	50.875.804	47.446.379	47.155.005	47.928.197	47.879.400	49.879.580

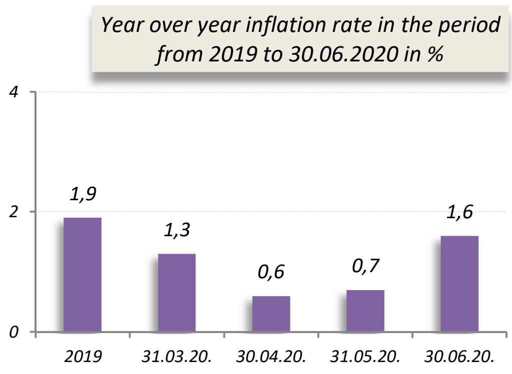
INDICATORS	30.06.20.	31.05.20.	30.04.20.	31.03.20.	2019.	2018.
RATIO LOANS/DEPOSITS						
Gross loans/deposits	55,59%	55,77%	56,41%	57,42%	57,71%	58,35%
Net loans/deposits	53,16%	53,30%	53,90%	54,88%	54,94%	54,76%
EQUITY (000 RSD)	73.536.236	73.416.362	72.982.763	76.926.680	75.852.173	67.560.513
Capital adequacy	31,37%	29,27%	29,44%	29,80%	30,83%	29,18%
Number of employees	2.710	2.717	2.721	2.725	2.744	2.766
PROFITABILITY RATIOS						
ROA	1,31%	1,35%	1,35%	2,07%	2,00%	2,13%
ROE – on total equity	7,75%	7,93%	7,83%	11,81%	11,71%	12,57%
Net interest margin on total assets	2,68%	2,69%	2,72%	2,77%	3,04%	3,37%
Cost / income ratio	70,46%	73,33%	76,29%	60,10%	61,70%	58,04%
Operating cash flow	4.683.632	4.128.291	3.794.239	4.400.613	9.859.741	9.379.217
Assets per employee (000 EUR)	1.436	1.410	1.389	1.381	1.340	1.227
Assets per employee (000 RSD)	168.864	165.771	163.321	162.241	157.573	145.035

[1] Item loans (retail and corporate) does nto include other lendign and receivables.
[2] Item deposits (retail and corporate) does nto include other liabilities and funds received through credit lines.

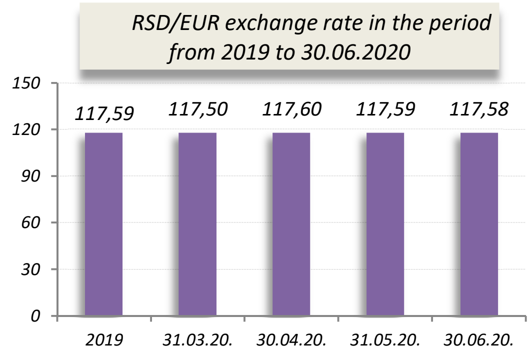
2. MACROECONOMIC BUSINESS ENVIRONMENT IN THE PERIOD BETWEEN 01.01. AND 30.06.2020

Macroeconomic business environment in the first half of 2020 is under the influence of the COVID-19 pandemic. After the growth in gross domestic product of 4.2% in 2019 in the first quarter 2020 Serbian economy generated the growth of 5.0% despite the fact that the first negative effects of the pandemic were felt during March. Growth of gross domestic product in the first quarter of the current year was under the influence of the growth in industrial production, continued implementation of infrastructural projects and stable growth of services. According to the projections of the National Bank of Serbia (NBS) the strongest negative effects of the pandemic on the Serbian economy occurred in the second quarter this year. Economy is expected to recover during the third and fourth quarter 2020.

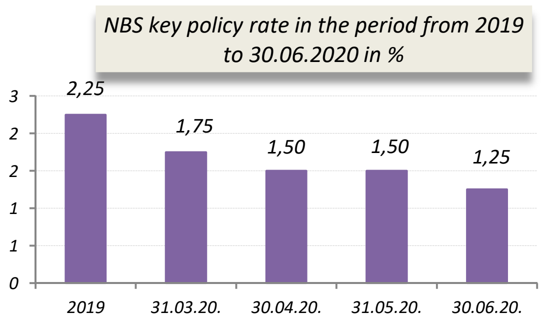
Inflation is firmly under control and is at the level of approx. 2.0% on average for the past six years. Rate of inflation at the end of June 2020 was 1.6% year-over-year and returned within the targeted limits. What affected the growth of inflation is the price of services, processed food, fruit and cigarettes, while the adverse effect to inflation stemmed from the price of oil derivatives. In June consumer prices increased, on a monthly level, by 0.6% primarily as the result of higher price of fruit, vegetables and package holidays.
According to the central projection of NBS y-o-y inflation will remain low and sable in the upcoming period.[3]



During the first two quarters 2020 despite the insecurity in the international financial market, the dinar did not significantly oscillate against the euro. During the second quarter of the current year the dinar exchange rate was about 117.6 dinars to the euro. From the start of the year, the National Bank of Serbia intervened in the interbank FX market with the net sale of EUR 1,030 million.[4]



What affected the trend in the exchange rate were also foreign direct investments. After the inflow of EUR 7.3 bn during the past two years (2018 and 2019), in the first 5 months this year a net inflow of EUR 1.3 bn was realized.[5] During the second quarter 2020 the National Bank of Serbia continued with to ease its monetary policy. As part of those activities, the key policy rate was reduced in April to 1.50% and then on 11.06.2020 was reduced additionally by 0.25% basis points to the level of 1.25%. The decision was passed bearing in mind that the scope of the crisis in global terms, caused by the spread of the COVID-19 virus, requires additional support of the monetary policy to the local economy with the aim of mitigating the adverse effects of the crisis and an incentive to the economic growth in the upcoming period.



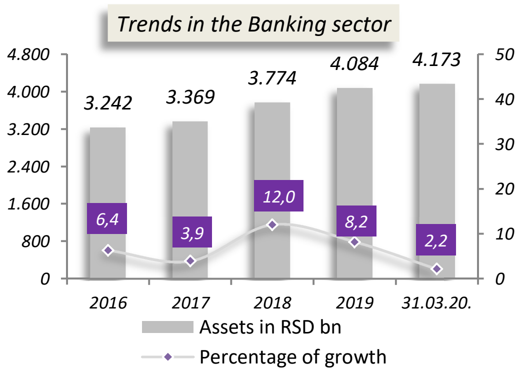
[3] NBS, Macroeconomic trends in Serbia, July 2020

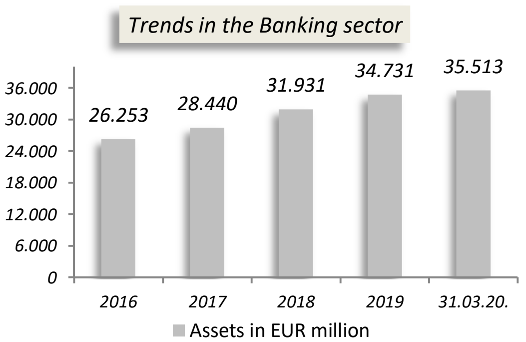
4 NBS, Balance of FX reserves and trends in the interbank market in June 2020
5 NBS, Macroeconomic trends in Serbia, July 2020

3. BANKING SECTOR AND THE BANK'S FINANCIAL POSITION

At the end of March 2020 the Banking sector of the Republic of Serbia consisted of a total of 26 banks, which is the same number of banks as at the start of the year. As of 31.03.2020 there were 23,117 workers employed in the Banking sector[6].

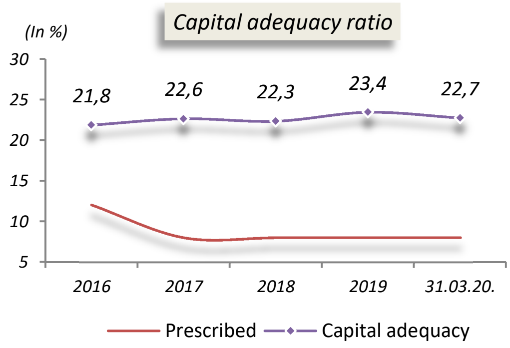
Total assets reached the amount of EUR 35,513 million or 4,172.9 billion dinars and compared to the start of the year it increased by 88.8 bn dinars or 2.2%. The Bank's share in the sector's assets at the end of March 2020 is 10.6%.





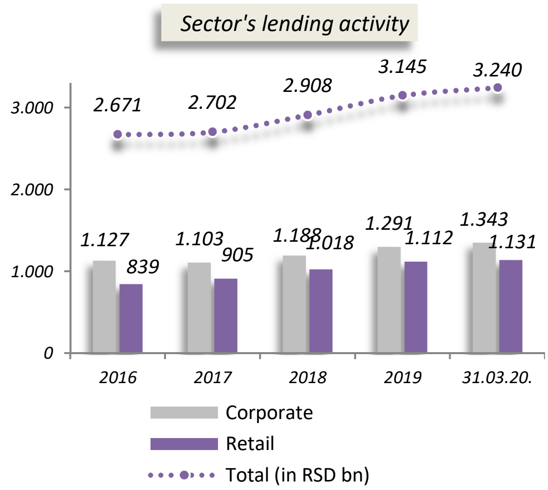
Total capital of the Banking sector at the end of March 2020 was EUR 6,034 million or RSD 709.0 bn and compared to the start of the year it increased by 0.5%. The Bank's share in the total banking sector's capital, as of 31.03.2020, was 10.9%.

Average value of the capital adequacy ratio for the Banking sector, as of 31st March 2020 was 22.7%.[7] Compared to the prescribed minimum ratio of 8.9%, realized value shows that he banking sector was adequately capitalized.



The Bank's capital adequacy ratio, as of 30.06.2020 was 31.37% and as of 31.03.2020 it was 29.80% and was above the sector average.

On the level of the Banking sector and during the first quarter of 2020, the trend of growing loans continued.[8]



On the level of the Banking sector the share of gross NPLs in total gross loans at the end of December 2019 was 4.1%, while at the end of March 2020 it decreased and amounted to 4.0%.

NPL impairments cover 61.4% of gross NPLs[9].

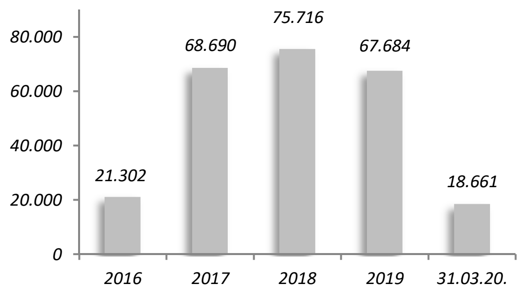
During the first quarter 2020 retail FX savings on the level of the sector was EUR 10,472 million and compared to the end of the year increased by EUR 3.8 million. Total retail savings at the end of March of the current year is EUR 11,180

6 NBS, Macroeconomic trends in Serbia, May 2020
7 NBS, Key macroeconomic prudential ratios for the Republic of Serbia, table 1.1
8 NBS, Consolidated balance of the Banking system, June 2020
9 NBS, Key macroeconomic prudential ratios for the Republic of Serbia, table 1.1

million which, compared to the start of the year, is an increase of EUR 39.4 million or 0.4%.[10]

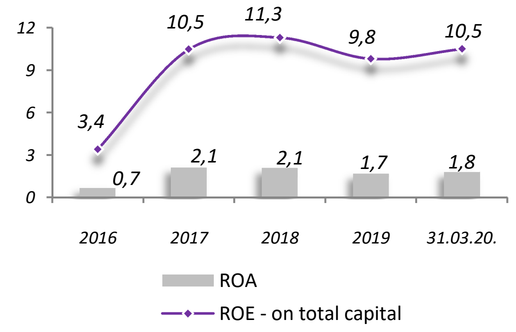
In the first 3 months of 2020 banking sector realized a profit before tax in the amount of EUR 158.8 million or 18.7 bn dinars.

Net profit before tax in RSD million



On the basis of the value from the first quarter 2020 return on equity (ROE) per year was 10.5% (in 2019 it was 9.8%) while the rate of return on assets (ROA) on the level of the Banking sector per year was 1.8% (for 2019 it was 1.7%).[11]

Profitability ratios of the sector



10 NBS, monetary statistics, table 1.1.20. retail savings in banks

11 NBS, Macroeconomic trends in Serbia, May 2020

4. ORGANIZATIONAL STRUCTURE AND THE BANK'S BODIES

Board of Directors of the Bank was set up in accordance with the Law on Banks, the Bank's Articles of Association and consists of at least 5 (five) members, including the chairperson, of whom at least one third must be persons independent of the Bank. Memebrs of the Baord of Directors of the Bank are appoitned by the General Meetign of the Bank's Shareholder to a period of 4 years. Draft decision on appointing the chairperson and memebrs of the Baord of Directors of the Bank is established by teh Board of Directors of the Bank, at the shareholders' proposal.
Competences of the Board of Directors of the Bank are defined in Article 73 of the Law on Banks and article 27 of the Bank's Articles of Association. Memebrs of hte Board of Directors of the Bank as of 30 June 2020 are:

NAME AND SURNAME	SHAREHOLDER / MEMEBR INDEPENDENT OF THE BANK	FUNCTION
Marija Sokić	*Republic of Serbia*	*Chairperson*
Daniel Pantić	*Republic of Serbia*	*Member*
Dejan Hadžić	*Republic of Serbia*	*Member*
Katarina Šušić	*Member independent of the Bank*	*Member*
Goran Knežević	*Member independent of the Bank*	*Member*
Prof. Zoran Jović, PhD	*Member independent of the Bank*	*Member*

Quorum for work and decision making of the Board of Directors of the Bank exists if the meeting is attended by the majority of the total number of members of the Bank's Board of Directors. Chairperson and each member have the right to one vote each.

Executive Board consists of the President of the Executive Board, Deputy President of the Executive Board and at least three members.
Term of office of the members of the Executive Board of the Bank, including the president and the deputy president is four years from the data of appointment.
Competences of the Executive Board are defined in Article 76 of the Law on Banks and Article 31 of the Bank's Articles of Association.
As of 30 June members of the Bank's Executive Board are:

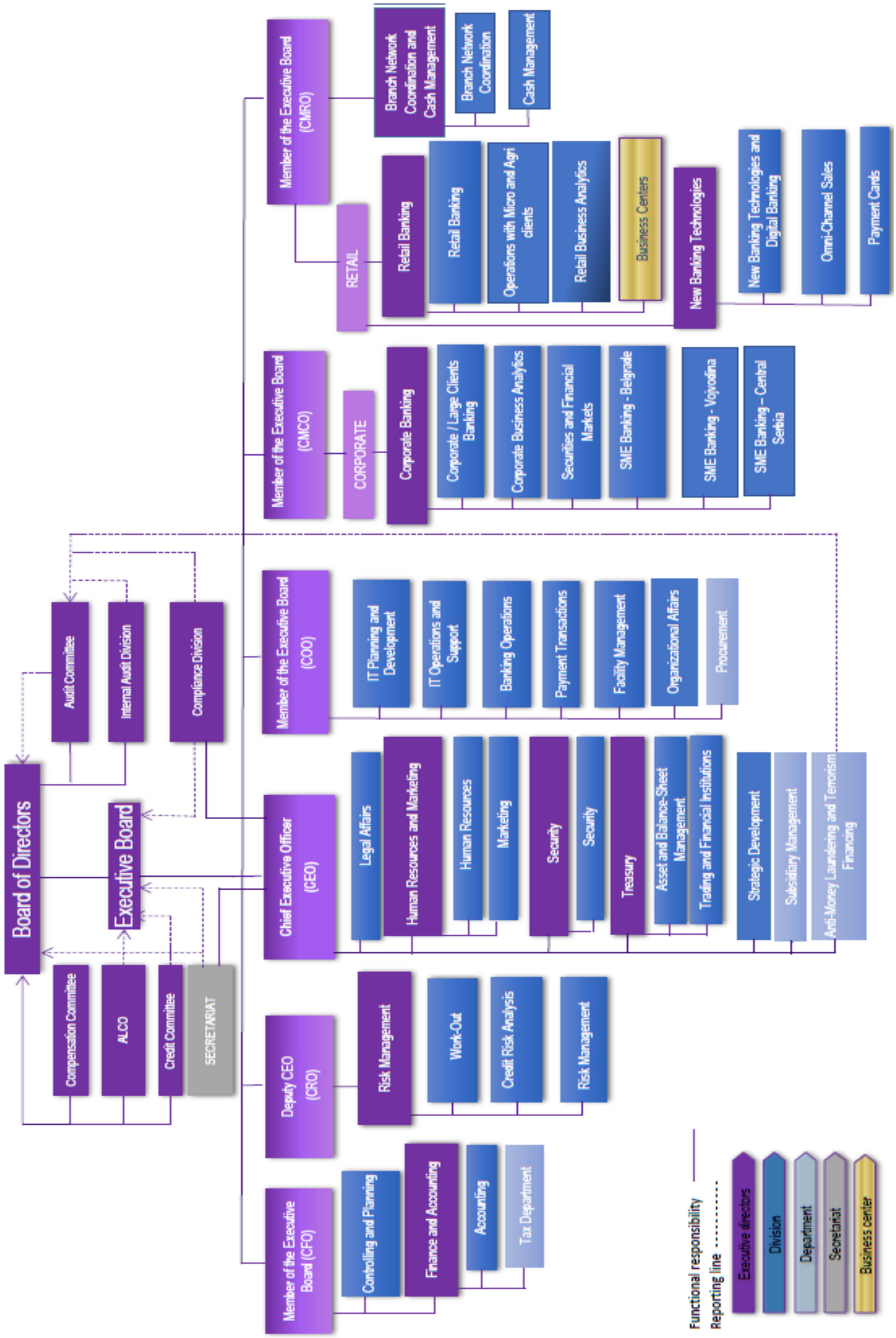
NAME AND SURNAME	FUNCTION
Vladimir Medan, PhD	*President*
Una Sikimić, PhD	*Deputy President*
Dragiša Stanojević	*Member*
Miroslav Perić, PhD	*Member*
Pavao Marjanović	*Member*

Quorum for work and decision making by the Executive Board exists if the meeting is attended by the majority of the total number of the members of the Executive Board. Executive Board passes the decisions with a majority of votes of the total number of members.

The Bank's Audit Committee consists of three members, two of whom are members of the Bank's Board of Directors who have the appropriate experience in the area of finance. One member of the Audit Committee is the person independent from the Bank. Members of the Audit Committee are appointed to a period of four years.
Duties of the Audit Committee are defined in Article 80 of the Law on Banks and Article 34 of the Bank's Articles of Association. Members of the Audit Committee, as of 30 June 2020 are:

NAME AND SURNAME	FUNCTION
Daniel Pantić, PhD	*Chairperson*
Dejan Hadžić	*Member*
Aleksandra Dragović Delić	*Member*

There is a quorum for work and decision-making of the Audit Committee if the meeting is attended by the majority of the total number of members of the Audit Committee.



Note: Bank's organization chart as of 30.06.2020

5. THE BANK'S FINANCIAL POSITION AND BUSINESS RESULTS IN THE PERIOD FROM 01.01. TO 30.06.2020

ITEM	30.06.20.	31.05.20.	30.04.20.	31.03.20.	2019.	2018.
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Deposits	50.875.804	47.446.379	47.155.005	47.928.197	47.879.400	49.879.580

As on 30.06.2020 the Bank's balance-sheet assets were 457,621.4 million dinars and increased by 25,241.0 million dinars compared to the start of the year.

Off-balance-sheet assets increased 6.2% in the first half 2020 and at the end of June of the current year they amount to 488,788.3 million dinars.

Corporate and retail deposits at the end of June 2020 amount to 346,633.1 million dinars and compared to the start of the year increased by 18,269.2 million dinars. On the other hand, the corporate and retail loans at the end of June 2020 amounted to 188,342.9 million dinars and compared to the start of the year increased by 7,781.3 million dinars or 4.3%.

These changes contain also the effect of dinar appreciation against the euro (0.01%) and the US dollar (0.27%), and depreciation against the Swiss franc (1.39%) from the start of the year until the end of the first half of 2020.

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Net income/fees from impairment of financial assets that are not measured at fair value through profit and loss	(99.159)	26.400	33.088	5.962	2.425.931	9.493
PROFITABILITY RATIOS						
ROA	1,31%	1,35%	1,35%	2,07%	2,00%	2,13%
ROE – on total capital	7,75%	7,93%	7,83%	11,81%	11,71%	12,57%
Net interest margin on total assets	2,68%	2,69%	2,72%	2,77%	3,04%	3,37%
Cost / income ratio	70,46%	73,33%	76,29%	60,10%	61,70%	58,04%
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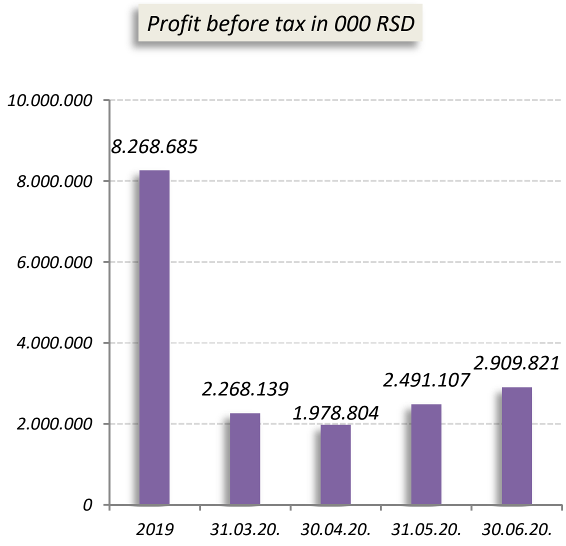
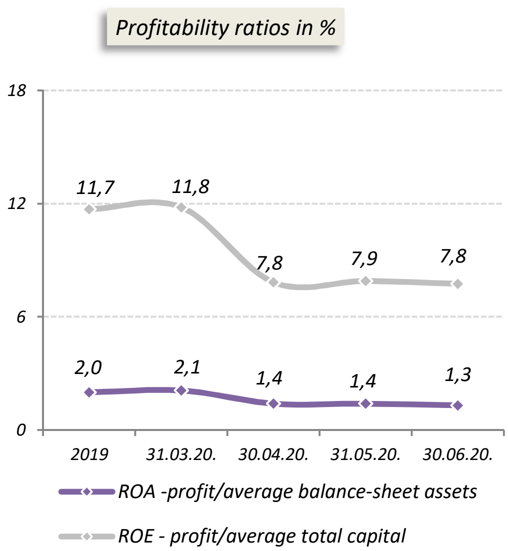
Assets per employee (000 EUR)	1.436	1.410	1.389	1.381	1.340	1.227
Assets per employee (000 RSD)	168.864	165.771	163.321	162.241	157.573	145.035





The Bank's realized profit before tax in the period from 01.01. to 30.06.2020 is 2,909.8 million dinars. Realized profit has ensured to the Bank, in the first six months 2020, return on total equity of 7.8% and return on balance-sheet assets of 1.3%.

Net interest income at the end of June was 5,951.5 million dinars which is 5.6% less year-over-year. Net fee income was 2,379.9 million dinars and were 224.6 million lower year-over-year.

In the six months of 2020 the Bank realized net expenses from indirect write-off of loans and provisions in the amount of 99.2 million dinars whereas at the end of the first half of 2019 the Bank realized net expenses from indirect write-off of loans and provisions in the amount of 1,638.0 million dinars.

In the first half of this year operating expenses were 5,870.3 million dinars which is 692.1 million dinars or 13.4% more year-over-year. The level of operating expenses is influenced by the increase in the cost of salary, salary allowance and other personnel expenses (y-o-y they increased mostly due to other personnel expenses for annual bonus for employees).

As the result of more significant increase in the trading volume, as well as the decrease in the number of employees in the first six months of 2020 assets per employee in the Bank increased from 157.6 million dinars (31.1.2.2019) to 168.9 million dinars as of 30.06.2020.

5.1. Retail operation

Activities of the Retail business function, in the first half of the year, was significantly adversely affected by the state of emergency in the Republic of Serbia due to the COVID-19 pandemic (state of emergency lasted from 16.03.2020 to 06.05.2020).

In January and February operations recorded positive trends since a significant growth of disbursement of the most important products was recorded year-over-year (disbursement of cash and housing loans was higher 12% and 19% respectively).

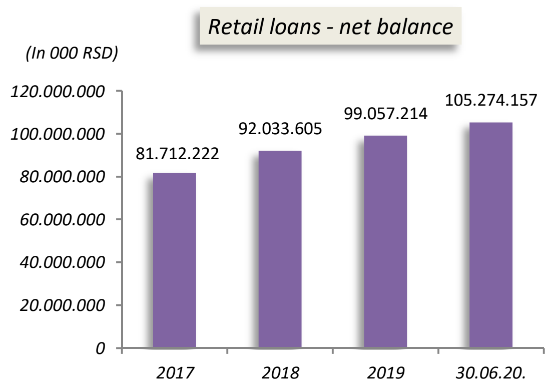
During the state of emergency the business focused on:

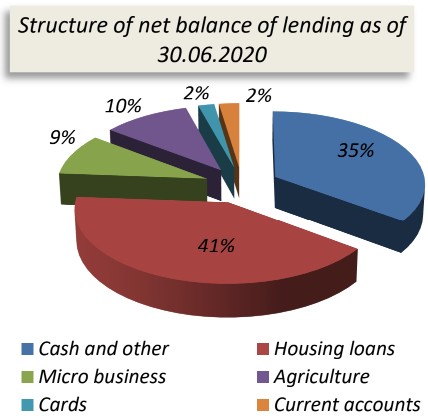
- protecting the customer base and the portfolio against the adverse effects of the pandemic by applying the repayment freeze, in accordance with the Decision on temporary measures for the preservation of the financial system of the National Bank of Serbia;
- payment of pensions at the pensioner's home address, since the pensioners make up a significant portion of the Bank's clients;
- protection of the clients' and employees' health, while maintaining the continuity of operation with decreased operating capacity. The branches worked shorter time, with a lower number of employees and 40 branches were temporarily closed during the emergency situation.

Regardless of all the limitations, the Bank has managed to provide services to all the clients who needed it, in an appropriate manner.

Starting from 11.05.2020 the business started returning to normal. Only one branch is still not opened and disbursement of loans has experienced an expansion, particularly in micro business and agricultural segment, due to the loans from the Guarantee Scheme of the Government of the Republic of Serbia and subsidized agricultural loans in cooperation with the Ministry of Agriculture.
In the segment of agricultural subsidized loans the Bank is a confident leader in the market with the share of 40% in terms of the number of loans and 25% in terms of the amount. The share in micro business loans from the Guarantee scheme is also respectable, about 11% in terms of number and amount.

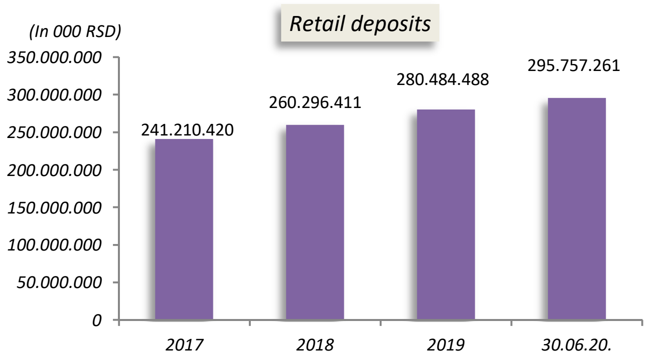
With all the challenges, the net balance of retail lending increased by respectable 6,216.9 million dinars compared to the balance from the start of the year.
In the structure of net balance, the share of housing loans is 41% and the share of other products is 59%.





Deposits[12] - the Bank's operation

Balance of deposits, despite all the challenges, as of 30.06.2020, is higher by a significant amount of 15,272.8 million dinars compared to the start of the year.



Other products

The bank has a respectable base with more than 1.3 million retail customers. In the most significant segment, the number of private individuals with regular salary through the current account, we have more then 429,000 clients with growth since the beginning of the year. The clients with regular income are the core of retail operation and they form the foundation for an increase in lending activity, particularly for current account overdrafts, as these are the most profitable product and is used by every third client. The Bank recorded an increase of about 8%, compared to the end of 2019, of clients who use the Set Accounts as a higher quality product compared to the basic current account, of which about 12% of Start sets are intended for the youngest clients which forms the basis for secure business in the future whereby the bank develops a long-term customer base. The number of debit and credit cards has slightly increased.

In the micro business segment, the Bank recorded an increase in the Set Accounts by about 6% compared to 2019. It is especially necessary to point out that a large number of micro clients regularly use the Bank's electronic services.

Electronic banking for private individuals

Through electronic channels, at the end of June 2020, for private individuals and legal entities the Bank currently provides services for more than 244,000 unique clients.
Constant increase in the users continued also in the first six month of the current year where the mBank channel had an increase in the number of users of 17% while the increase in users compared to the same month last year was 44%.
The number of users of the eBank channel increase in the first half of this year by 8%, while y-o-y growth was 16%.

Increase in the number of users of electronic channels is the result of intensive activities of the branch network on attracting clients, given the numerous advantages that the eBank and mBank offer.

The number of transactions increased significantly on the mBank channel. It is 111% higher year-over-year.

The number of eBank transactions increased 34% y-o-y.

[12] Item liabilities does not include other liabilities and assets received through credit lines

Branch network

Operation in the retail segment is carried out in 203 branches which puts' us on a leading position in the market. Clients have 285 ATMs and about 13,500 POS terminals at their disposal which also makes us one of the market leaders. Bearing in mind the client's needs, the Bank has continued with the activities on improving user experience by improving the appearance of the branches, moving into new premises, adjusting/optimizing working hours, etc.

Profitability

Regardless of all the challenges in the operation, caused by the COVID-19 pandemic and the state of emergency, retail operations in the first six months 2020 realized total net fee and interest income of 4,761.2 million dinars. The quality of the loan portfolio and customer base was preserved, which will result in even greater net income in the future.

5.2. New banking technologies – digital banking and cards

Market – key tendencies

National Bank of Serbia has introduced obligatory instant payment starting from 22 October 2018 which placed an obligation on banks to secure to the clients the infrastructure that will allow for instant transfer per a single sales channel and as of 2019 the Banks are obliged to allow for instant payment on all payment channels. The level of trade commission is stimulating for merchants' which contributes to faster adoption of cashless payment.

Since the end of 2018 the Law on Interbank Fee and Special Rules of Operation for Payment transactions on the Basis of Payment Cards applies and in accordance with it, it is provided that the interbank fee be reduced which, in the interim period (the initial six months) amounted to no more than 0.5% for debit cards and 0.6% for credit cards. Additional reduction in the fees that applies as of 18 June 2019 was brought into compliance with the European level of 0.2% for debit and 0.3% for credit cards.

National Bank of Serbia also directed the Banks to the use of the national card scheme and supports the local brand Dina card by pointing out to lower expenses. The promotion of the national Dina card had a positive impact on the ratio of reissued payment cards in favor of the Dina card.

The trend of adopting cashless payment and provision of digital services continues, to which the key market parameters also point:

- number of cash credits and debits has been decreasing for several years,
- at the same time, electronically initiated orders have been increasing ever so faster in the past several years and are accompanied by increased volume of transactions, the number of transactions on the merchants' internet points of sale is increasing, cards are still the dominant payment instruments but the use of electronic cash is on the rise,
- merchant network is expanding with the increase in the internet points of sale, POS terminals and ATMs,
- the number of active internet and mobile banking users is on the increase.

The Bank's digital banking

Analytical predictive tool (CRM–Customer Relationship Management) was put into operation on 26 February 2019.

During 2019 the creation of the program code was completed which merges the client's answers to the presented messages with the realization of the products that message relates to. Activation of the self-learner model which on the basis of the history of acceptance/rejection of offers and characteristics of the client, and thanks to advance analytics, predicts their behavior, was planned for the third quarter 2020 which, according to anticipation, will maximize the sale of the Bank's services and products to the users of digital channels.

RTDM (Real Time Decision Management) campaign was created for sending the best offer to micro legal entities and entrepreneurs via the KOMBANK BIZ WEB application that is currently in the testing stage, while it is planned that the campaign be put into operation by the end of November 2020. The existing RTDM campaign intended for the private individuals is adjusted for display on the mobile application. As of March 2020 all the mobile application users have been able to "see" RTDM.

Regulatory request for the introduction of instant payment at the merchant's point of sale has focused the activities of the digital development on enabling the acceptance of instant payment from the Bank's perspective as the accepter and the Bank as the issuer of payment instruments.

- ✓ As the acceptor the Bank has enabled the service of accepting instant payments on the infrastructure that relies on the existing system for acceptance of payment cards and the option to use independent infrastructure, that does not require that the merchant has a POS terminal, has been introduced.
- ✓ As the issuer of payment instruments, the Bank has allowed the clients a fast and simple service of cashless execution of payment transactions at the merchant's point of sale through the Bank's mobile application with the use of the QR code.

- Internet and mobile application for private individuals has been redesigned and improved and the application has been optimized with the aim of improving the user's experience.

- ✓ The number of users of electronic banking among private individuals has increased, as well as the outgoing traffic and the number of transactions of electronic banking for private individuals.
- ✓ The number of users of the mobile application for private individuals also increased, accompanied by the increase in the number of the transactions and the increase in the volume of traffic.
- ✓ The total number of users of electronic banking among legal entities increased, as well as the total number of transactions of electronic banking of legal entities, accompanied by the increase in the share of eBank in the total number of transactions and the volume of the Bank's payment transactions.

- The Bank's digital branch KOMeCENTAR has continued with its successful work and the number of applications for products is increasing compared to the previous year. Out of the Bank's products that have been offered through KOMeCENTAR, overdraft attracted the greatest interest of clients.
- It is planned to implement a project of lowering the functionality of the digital branch KOMeCENTAR on a mobile application for private individuals in order to make it available to an even greater number of clients.
- What is currently underway is the project of implementing remote signing via digital branch where it is expected that the this project will be completed by the end of the third quarter 2020 and then expansion of the offer of services and products on the digital branch given the possibilities that arise with remote signing.
- The process of testing and the pilot production of IPS QR payment was successfully completed and this feature was put into mass operation in March. It is planned to allow this feature on a mobile application for legal entities, as well as expanding the merchant network.
- Also, NBS license was obtained for massive production for Kombank IPS QR trading application developed in cooperation with the Serbian Chamber of Commerce. The application has been implemented for some time already in several select merchants and operates with no problem.

Development activities of payment cards

- Finalization of the project of introducing a new card product VISA business Platinum is underway and is intended for legal entities with the aim of attracting a greater number of users, increasing the number of cards and the number of transactions with business payment cards, bearing in mind the fact that Platinum cards provide a possibility of using different benefits to users of such cards compared to the "ordinary" types of payment cards.
- The project of introducing electronic wallet / E- wallet is in its closing stage.

5.3. Corporate operations

Market – key tendencies

Activities of the Corporate business function, in the first half of the year, was significantly adversely affected by the state of emergency in the Republic of Serbia due to the COVID-19 pandemic.

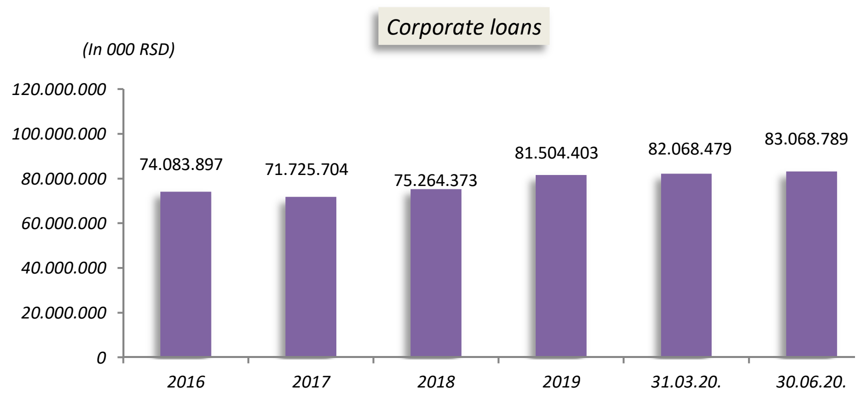
In 2020 the trend of reducing dinar interest rates continued while there was stabilization of the interest rates for loans with a currency clause.

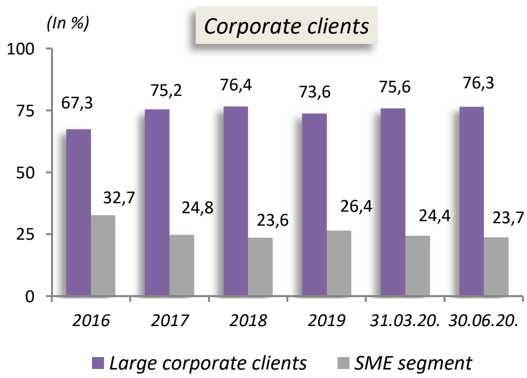
Bank's standards for newly approved corporate loans, have remained unchanged in 2020 also, primarily for small and medium-sized enterprises, but also to a lesser extent for large corporates as well. In terms of maturity and currency, lowering of standards is present also in short-term and long-term dinar corporate lending, as well as short-term corporate lending with a currency clause.

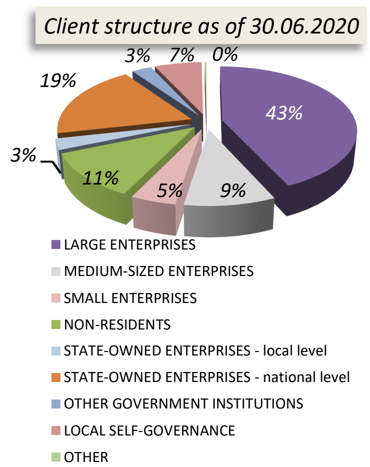
In 2020 there was an increase in the level of corporate lending. On the level of the Banking sector the level of loans is higher compared to the end of 2019 (total corporates, state owned entities and local government level recorded an increase of 5.8% or 76.6 bn dinars).[13]

Loans [14] - the Bank's operation

The realization of newly approved loans in 2020 is lower by 10% compared to 2019. Compared to the beginning of the year, higher sales were achieved in the segment of large corporate clients, while in the same period there was a decline in the SME segment. Balance-sheet portfolio increased by 2.3% compared to the start of the year and in the portfolio structure there was an increase in the share of large corporate clients from 73.6% (at the end of 2019) to 76.3%.







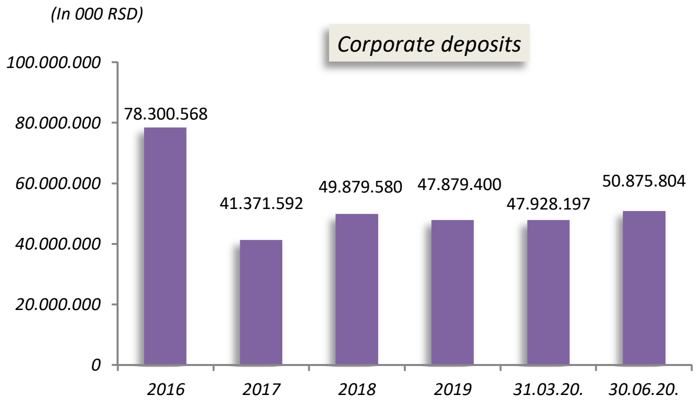
[13] NBS, Consolidated balance-sheet of the Banking sector, May 2020
[14] Loans to customers do not include other lending

Average weighted interest rates on loans disbursed in 2020 are at somewhat higher level compared to the loans disbursed in 2019.

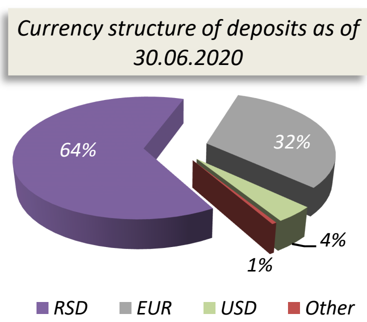
Interest rate on loans indexed in EUR is still lower compared to the loans in dinars, which in the environment of a stable exchange rate was the determining factor for the market regarding the higher demand for loans indexed in a foreign currency, when compared to dinar loans. Of the total amount of loans disbursed in 2020 26% was disbursed in dinars while 74% was disbursed through loans indexed in EUR. Accordingly, the share of dinar loans in the total portfolio increased.

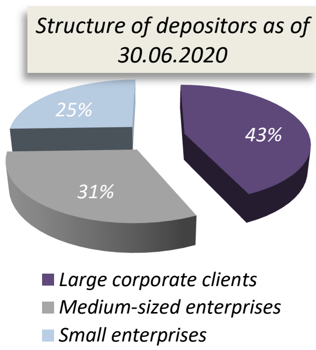
Deposits[15]

High share of transaction deposits of 76% of total corporate deposits results in lower interest expenses and has a positive effect on the Bank's business result.

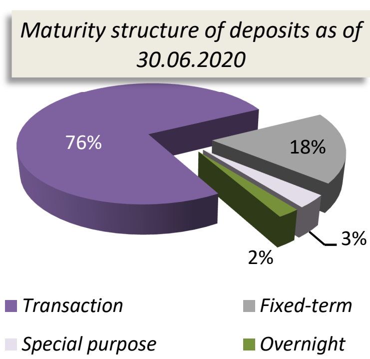


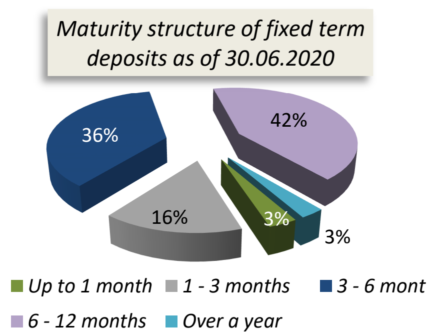
Note:
1. At the end of 2017 11.2 billion dinars worth of depsoits of micro clients was transferred from corporate into retail due to which the data differs from the data in the annual report for 2017.
2. The level of corporate deposits at the end of 2016 was under the influence of a single deposit.





Note: Overview of the structure of depositors on the basis of the internal client segmentation





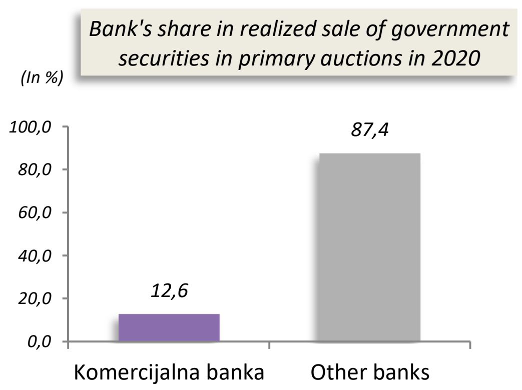
[15] Deposits do not include other liabilities and funds received through credit lines

5.4. Asset management

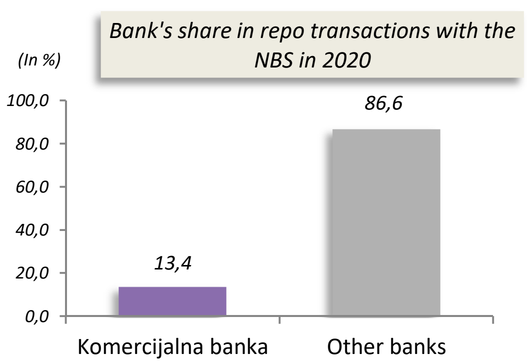
Starting from the Bank's strategic orientation, the activity of the Treasury business function is focused on active management of funds and liquidity while securing unhindered operation of the Bank and meeting the client's business needs.

The environment that the Treasury business function operated in was marked by gradual reduction in the key-policy rate during the first half of 2020 from 2.25% to 1.25%, stabilization of interest rates at a relatively low level and negative interest rates on EUR and CHF in foreign financial markets which, bearing in mind the available funds, posed a very significant challenge in managing liquidity.

In 2020 the Bank's liquidity position was stable and liquid assets were invested mostly into government securities of the Republic of Serbia.



The Bank's high share in primary auctions of government securities of the Republic of Serbia was accompanied also by very active participation in the secondary market while, bearing in mind the maturity structure of slurces, the greatest part of short-term dinar liquidity was invested through short-term lendign in the interbank market, through weekly reverse repo operations with the National Bank of Serbia and overnight deposits at the National Bank of Serbia.



5.5. Securities Division

Securities Division is a special organizational form of the Bank that consists of the Department for Broker – Dealer Operations – Authorized Bank and the Custody Operations Department – Custody Bank, with the licenses from the Securities Commission for providing investment and additional or custody services. In the first half of 2020 the Bank realized significant results in operation with financial instruments:

- in the primary and secondary (OTC) market of the government debt securities denominated in EUR and RSD – dealer operations;
- the Bank is among the first ten members of the Belgrade Stock Exchange in terms of the total volume of transactions, the first in terms of the number of transactions, seventh in terms of the value of transactions;
- significant increase in the number of clients who use the unique web application Kombank Trader that allows for online trading in financial instruments in the local and foreign markets from a computer and a mobile telephone;
- the Bank is in the process of bringing its operation and by-laws into compliance with the new Law on Investment Funds with a Public Offer – depository operations for UCITS investment funds – before the Securities Commission of the Republic of Serbia; the application has been submitted and a decision/approval is awaited;
- significant increase in the number of custody bank clients in the part that relates to services in the foreign market;
- significant increase in the number of clients in the local market (mostly owners of old FX savings bonds);
- increase in the number of orders from custody bank clients;
- continued trend in competitiveness regarding the volume of transactions when compared to other custody banks;
- Attracting clients, particularly to voluntary pension funds and professional clients.

6. BALANCE-SHEET AS OF 30.06.2020

6.1. Bank's assets as of 30.06.2020

(In 000 RSD)

No.	BALANCE-SHEET ITEM	30.06.2020.	31.12.2019.	INDEX
1	2	3	4	5=(3:4)*100
1	Cash and funds with the central bank	76.487.156	67.558.219	113,2
2	Pledged financial assets	-	-	-
3	Receivables from derivatives	3.490	-	-
4	Securities	154.573.244	138.469.551	111,6
5	Loans and receivables from banks and other financial organizations	19.163.611	24.733.958	77,5
6	Loans and receivables from customers	188.897.608	180.852.563	104,4
7	Changes in the fair value of items that are subject to risk hedging	-	-	-
8	Receivables based on derivatives intended for risk hedging	-	-	-
9	Investment in affiliations and joint ventures	-	-	-
10	Investment in subsidiaries	3.433.697	3.433.697	100,0
11	Intangible assets	568.956	665.735	85,5
12	Property, plant and equipment	6.208.933	6.437.937	96,4
13	Investment property	1.838.717	1.857.927	99,0
14	Current tax assets	-	-	-
15	Deferred tax assets	1.039.709	1.074.197	96,8
16	Fixed assets intended for sale and assets from discontinued operations	138.017	196.300	70,3
17	Other assets	5.268.256	7.100.359	74,2
	TOTAL ASSETS (from 1 to 17)	**457.621.394**	**432.380.443**	105,8

Bank's balance sheet assets at the end of the first half of 2020 were 457,621.4 million dinars and compared to the start of the year increased by 25,241.0 million dinars or 5.8%.

During the first half of the current year, the item cash and funds at the central bank recorded an increase of 8,928.9 million dinars or 13.2%.

Investment into securities, at the end of June 2020, amounted to 154,573.2 million dinars. Compared to the start of the year, investment into securities increased 16,103.7 million dinars or 11.6 %. At the end of June, investment into securities accounts for 33.8% of the total balance-sheet assets of the Bank.

Loans and receivables from customers amount to 188,897.6 million dinars and compared to the balance from the start of the year, they increased 8,045.0 million dinars or 4.4%. Loans and receivables from customers, as of 30.06.2020, account for 41.3% of the balance-sheet assets.

Loans and receivables from banks and other financial organizations, at the end of the first half of the year amount to 19,163.6 million dinars and decreased by 5,570.3 million dinars from the start of the year.

Total lending and receivables from customers and banks, as of 30.06.2020 amounted to 208,061.2 million dinars, which accounts for 45.5% of the Bank's total balance-sheet assets.

When preparing the balance-sheet for 30.06.2020 the deferred tax assets and deferred tax liabilities were netted, after which the balance-sheet assets showed the deferred tax assets of 1,039.7 million dinars (as of 30.06.2020 before netting, the deferred tax assets from tax losses brought forward amounted to 1,198.6 million dinars).

6.2. Bank's liabilities as of 30.06.2020

(In 000 RSD)

No.	BALANCE-SHEET ITEM	30.06.2020.	31.12.2019.	INDEX
1	2	3	4	5=(3:4)*100
1	Liabilities from derivatives	-	-	-
2	Deposits and other financial liabilities to banks, other financial organizations and central bank	4.532.788	5.021.756	90,3
3	Deposits and other financial liabilities to other customers	359.771.391	335.317.154	107,3
4	Liabilities under hedging derivatives	-	-	-
5	Change in the fair value of hedged items	-	-	-
6	Liabilities from securities	-	-	-
7	Subordinated liabilities	-	-	-
8	Provisioning	1.844.969	2.328.130	79,2
9	Liabilities from assets intended for sale and assets from discontinued operations	-	-	-
10	Current tax liabilities	-	-	-
11	Deferred tax liabilities	-	-	-
12	Other liabilities	17.936.010	13.861.230	129,4
	TOTAL LIABILITIES (from 1 to 12)	**384.085.158**	**356.528.270**	107,7
	CAPITAL			
13	Share capital	40.034.550	40.034.550	100,0
14	Treasury shares	-	-	-
15	Profit	5.134.343	10.425.898	49,2
16	Loss	-	-	-
17	Reserves	28.367.343	25.391.725	111,7
18	Unrealized losses	-	-	-
19	Non-controlling stakes	-	-	-
20	**TOTAL CAPITAL (from 13 to 19)**	**73.536.236**	**75.852.173**	96,9
	TOTAL LIABILITIES (from 1 to 19)	**457.621.394**	**432.380.443**	105,8

At the end of the first half of 2020 the Bank's total liabilities amount to 384,085.2 million dinars and account for 83.9% of total liabilities (as of 31.12.2019 total obligations in liabilities accounted for 82.5%). At the same time, total capital was 73,536.2 million dinars and accounted for 16.1% of total liabilities (as of 31.12.2019 the share was 17.5%). Total liabilities increased compared to the start of the year by 27,556.9 million dinars or 7.7% while total capital decreased by 2,315.9 million dinars or 3.1%. The level of equity at the end of June 2020 was under the influence of the Decision on distribution of profit from 2019 and retained earnings from previous years (decision of the Bank's General Meeting of Shareholders 4690/3 of 28.04.2020). With this decision, among other things, the profit from 2019 and previous years distributed into dividends to owners of ordinary and preferred shares in the amount of 4,481.9 million dinars.

Total deposits and other financial liabilities to banks and customers amount to 364,304.2 million dinars, which accounts for 79.6% of the total balance-sheet assets while recording an increase compared to the end of the previous year of 23,965.3 million dinars or 7.0%. The item deposits and other financial liabilities to customers increased in the reporting period by 24,454.2 million dinars or 7.3% while the item deposits and other financial liabilities to banks decreased compared to the start of the year by 489.0 million dinars or 9.7%.
The item other liabilities increased by 4,074.8 million dinars or 29.4% primarily as the result of booking the decision on distribution of profit from 2019 and retained earnings from previous years, as well as decrease in other liabilities in foreign currency.
The item provisioning decreased during the first quarter 2020 by 483.2 million dinars as the result of net decrease in provisioning on the basis of court cases in the amount of 496.5 million dinars, decrease in provisioning for loss in off-balance-sheet assets in the amount of 22.8 million dinars and an increase in provisioning for long-term payments to employees in the amount of 36.2 million dinars.
At the end of June 2020 liabilities for credit lines amount to 1,178.1 million dinars and, compared to the start of the year, decreased by 248.8 million dinars.

6.3. Loans to customers and deposits from customers as of 30.06.2020

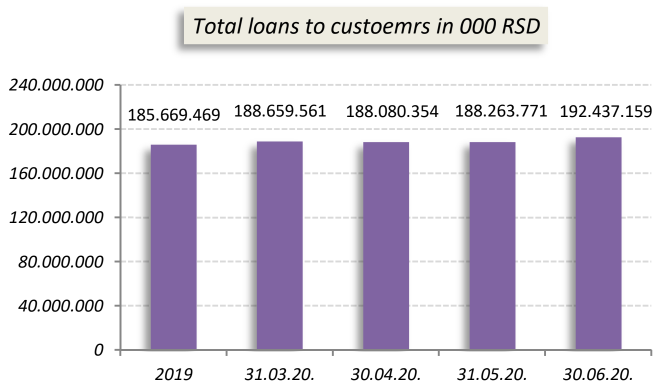
At the end of the first half of 2020 the Bank disbursed to its customers (corporate, retail, banks and financial organizations) loans in the total amount of 192,437.2 million dinars, while deposits from customers reached the amount of 361,987.1 million dinars.

(In 000 RSD)

NO.	ITEM	BALANCE AS OF 30.06.2020	BALANCE AS OF 31.12.2019	INDEX
1	2	3	4	5=(3:4)*100
I	*LOANS TO CUSTOMERS (1.+2.+3.)*	192.437.159	185.669.469	103,6
1.	Corporate	83.068.789	81.504.403	101,9
2.	Retail	105.274.157	99.057.214	106,3
3.	Banks and financial organizations	4.094.213	5.107.851	80,2
II	*DEPOSITS FROM CUSTOMERS (1.+2.+3.)*	361.987.055	337.948.699	107,1
1.	Corporate	50.875.804	47.879.400	106,3
2.	Retail	295.757.261	280.484.488	105,4
3.	Banks and financial organizations	15.353.990	9.584.811	160,2

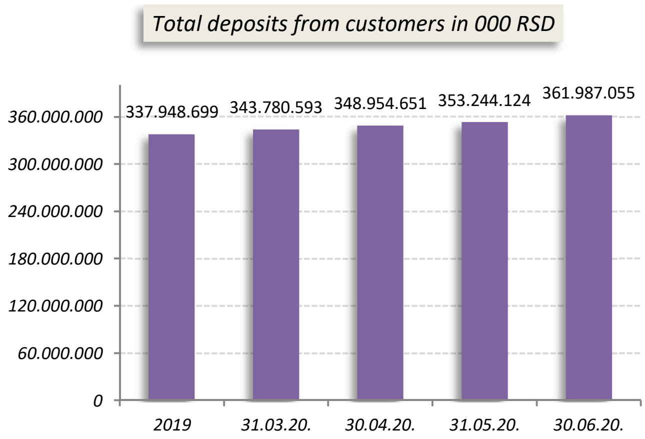
NOTE: loans to customers without other lending and receivables, received deposits without other liabilities and funds received in the form of credit lines.

The single most significant item of the balance-sheet assets, loans to customers increased from the start of the year by 6,767.7 million dinars or 3.6%. Loans to customers account for 42.1 % of total assets.



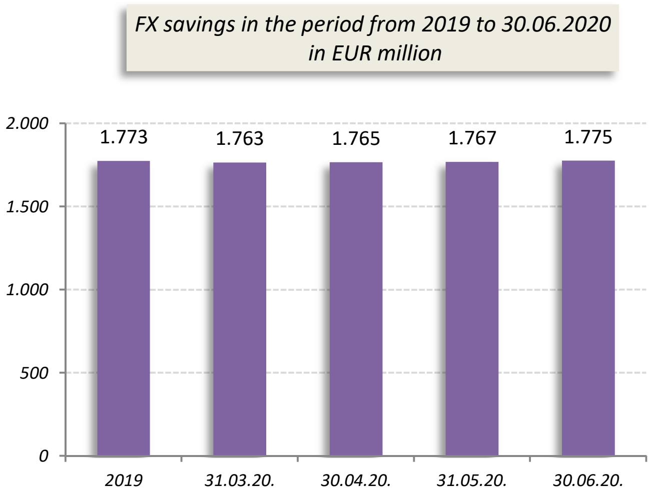
At the end of the first half 2020 lending to corporate clients reached an amount of 83,068.8 million dinars which is an increase of 1.9% compared to the end of 2019. Retail lending amount to 105,274.2 million dinars and increased by 6.3% compared to the end of the previous year. Lending to banks and financial organizations, at the end of June 2020, amount to 4,094.2 million dinars which is a decrease compared to the end of the previous year of 1,013.6 million.

Total deposits from customers, as of 30.06.2020, amounted to 361,987.1 million dinars and account for 79.1% of total liabilities or 94.2% of the Bank's total liabilities.



Total deposits from customers compared to the start of the year increased by 24,038.4 million dinars or 7.1%.

The structure of deposits is dominated by retail deposits that amount to 295,757.3 million dinars and account for 81.7% of total deposits from customers, while deposits from legal entities amount to 50,875.8 million dinars and account for 14.1% of total deposits. Compared to the start of the year the most significant increase is recorded in deposits from banks and financial organizations that increased by 5,769.2 million dinars or 60.2%. As the consequence of this increase, the share of deposits from banks and financial organizations in total deposits increased from 2.8% as of 31.12.2019 to 4.2% as of 30.06.2020.



Retail FX savings of the Bank's clients, at the end of the first half of 2020, is 1,775 million euros.

Depostiors' trust has enabled the Bank to maintain its leading position withtin the Banking sector of the Republic of Serbia in terms of the volume of FX savings, image and recognizability.

6.4. Off-balance-sheet items in 2020

(In 000 RSD)

NO.	ITEM	BALANCE AS OF 30.06.2020.	BALANCE AS OF 31.12.2019.	INDEX
1	2	3	4	5=(3:4)*100
1	OPERATIONS FOR AND ON BEHALF OF THIRD PARTIES	4.125.631	4.152.268	99,4
2	FUTURE COMMITMENTS	49.586.495	53.595.618	92,5
3	RECEIVED GUARANTEES FOR FUTURE COMMITMENTS	-	-	-
4	DERIVATIVES	2.351.520	-	-
5	OTHER OFF-BALANCE-SHEET ITEMS	432.724.702	402.692.145	107,5
	TOTAL	**488.788.348**	**460.440.031**	106,2

Bank's total off-balance-sheet assets increase during the first half of 2020 by 28,348.3 million dinars compared to the start of the year.

As of 30.06.2020 future commitments, including issued guarantees and other sureties' amount to a total of 49,586.5 million dinars which, compared to the start of the year is a decrease of 4,009.1 million dinars or 7.5%, mostly due to the decrease in the amount of irrevocable commitments for undrawn loans and advances.

As of 30.06.2020 derivatives in the off-balance record amount to 2,351.5 million dinars and relate to the agreed SWAP arrangements with the NBS.

Other off-balance-sheet items increased by 30,032.6 million dinars or 7.5% compared to the start of the year, primarily as the result of changes in the account of other off-balance-sheet assets.

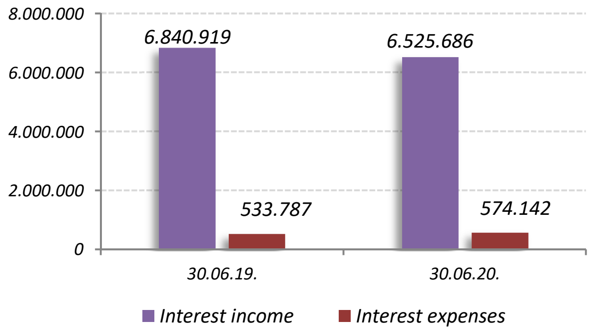
7. PROFIT&LOSS FOR THE PERIOD FROM 01.01. TO 30.06.2020

(In 000 RSD)

NO.	ITEM	30.06.2020.	30.06.2019.	INDEX
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	6.525.686	6.840.919	95,4
1.2.	Interest expenses	(574.142)	(533.787)	107,6
1.	**Net interest income/expenses**	**5.951.544**	**6.307.132**	94,4
2.1.	Fee and commission income	3.225.705	3.398.418	94,9
2.2.	Fee and commission expenses	(845.769)	(793.868)	106,5
2.	**Net fee and commission income/expenses**	**2.379.936**	**2.604.550**	91,4
3.	Net profit/loss from the change in the fair value of a financial instrument	35.085	36.998	94,8
4.	Net profit/loss from reclassification of a financial instrument	-	-	-
5.	Net profit/loss from discontinued recognition of financial instruments measured at fair value	108.307	201.317	53,8
6.	Net profit/loss from risk hedging	-	-	-
7.	Net income/expenses from exchange rate difference and the effects of the agreed currency clause	(8.161)	9.160	-
8.	Net income/expenses from impairment of financial assets that are not measured at fair value through P&L	(99.159)	1.637.952	-
9.	Net profit/loss from discontinued recognition of financial instruments that are measured at amortized value	-	(590.451)	-
10.	Net profit/loss from discontinuation of recognition of investments into affiliations and joint ventures	-	-	-
11.	Other operating income	125.186	68.494	182,8
12.	**TOTAL NET OPERATING INCOME**	**8.492.738**	**10.275.152**	82,7
13.	**TOTAL NET OPERATING EXPENSES**	-	-	-
14.	Cost of salaries, salary allowance and other personnel expenses	(3.110.456)	(2.177.607)	142,8
15.	Cost of depreciation	(492.842)	(496.957)	99,2
16.	Other income	734.678	409.063	179,6
17.	Other expenses	(2.714.297)	(3.671.005)	73,9
18.	**PROFIT BEFORE TAX**	**2.909.821**	**4.338.646**	67,1
19.	**LOSS BEFORE TAX**	-	-	-
20.	Profit tax	-	-	
21.	Deferred tax gains	17.252	293	-
22.	Deferred tax loss	(158.749)	(147)	-
23.	**PROFIT AFTER TAX**	**2.768.324**	**4.338.792**	63,8
24.	**LOSS AFTER TAX**	-	-	-
25.	Net profit from discontinued operations	-	-	-
26.	Net loss from discontinued operations	-	-	-
27.	**RESULT FOR THE PERIOD - PROFIT**	**2.768.324**	**4.338.792**	63,8
28.	**RESULT FOR THE PERIOD - LOSS**	-	-	-
29.	Profit attributable to parent entity			
30.	Profit attributable to non-controlling interest owners			
31.	Loss attributable to parent entity			
32.	Loss attributable to non-controlling interest owners			
33.	Earnings per share			
34.	Basic earnings per share (in dinars without paras)			
35.	Reduced (diluted) earnings per share (in dinars without paras)			

7.1. Interest income and expenses

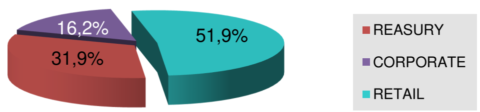
Interest income and expenses in 000 RSD



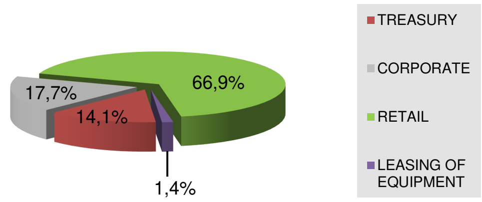
During the first six months of 2020 net interest income was realized in the amount of 5,951.5 million dinars which, year-over-year is a decrease of 5.6%.

Y-o-y interest income is lower by 315.2 million dinars or 4.6% while interest expenses increased 40.4 million dinars or 7.6%. Lower amount of interest income is the result of significantly lower lending interest rates in the market, particularly the interest on securities, while the expenses are under the influence of a significant increase in deposits that the Bank realized over the past period.

Interest income in 2020

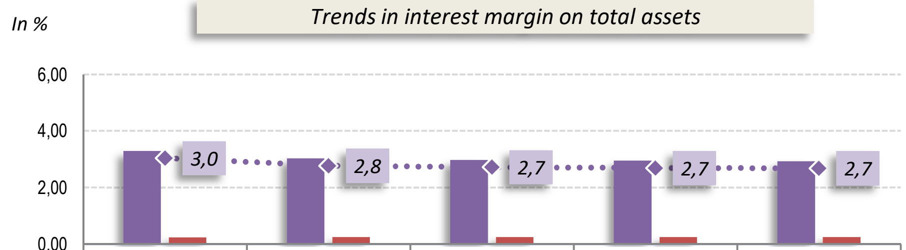


Interest expenses in 2020



Within interest income the greatest share comes from interest income from retail operations (3,383.7 million dinars or 51.9%). Retail deposit interest dominate the expenses (383.9 million dinars or 66.9%) which is mostly the result of interest expenses for collected FX savings.

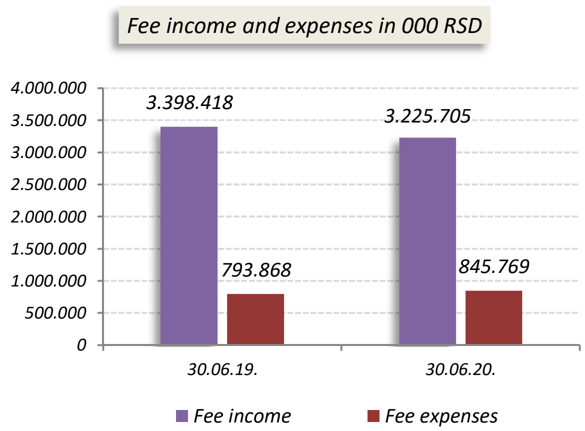
Trends in interest margin on total assets



	2019	March	April	May	June
Average lending interest rate	3,29	3,03	2,98	2,95	2,93
Average borrowing interest rate	0,25	0,26	0,26	0,26	0,26
Average interest margin	3,04	2,77	2,72	2,69	2,68

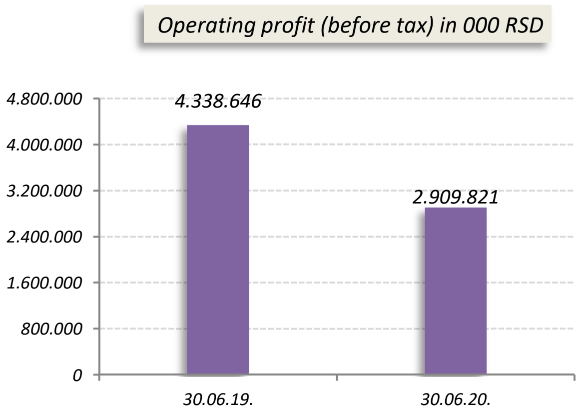
Average lending interest rate at the end of the first quarter 2020 was 2.93% and average borrowing interest margin was 0.26% so the Bank's average interest margin was 2.68% in the first half of 2020.

7.2. Fee income and expenses



During the first half of 2020, compared to the same period last year, fee and commission income from banking services decreased by 172.7 million dinars or 5.1%. At the same time fee and commission expenses increased 51.9 million dinars or 6.5%.
Net fee and commission income for the first half of 2020 was 2,379.9 million dinars and was 224.6 million dinars less y-o-y (mostly as the result of lower retail fee income from payment transactions and payment cards due to the COVID-19 pandemic).

7.3. Operating profit (before tax)



In the period between 01.01. and 30.06.2020 operating profit before tax was realized in the amount of 2,909.8 million dinars.

Realized operating profit ensured the Bank, in the first half of 2020, a return on total equity of 7.8% and return on average assets of 1.3%.

7.4. Performance indicators prescribed by the Law on Banks

NO.	ITEM	PRESCRIBED	30.06.2020.	2019.
1.	CAPITAL ADEQUACY RATIO (CAPITAL / RISK ASSETS); *REQUIREMENT FOR A COMBINED CAPITAL BUFFER	MIN 12,8%+bffr*	31,37%	30,83%
2.	RATIO OF INVESTMENT INTO ENTITIES OUTSIDE THE FINANCIAL SECTOR AND FIXED ASSETS	MAX 60%	12,06%	13,05%
3.	LARGE EXPOSURE RATIO	MAX 400%	16,25%	26,62%
4.	FX RISK RATIO	MAX 20%	1,01%	1,98%
5.	LIQUIDITY RATIO (monthly, last day in the month)	MIN 0,8	4,13	4,08

Note: In accordance with the NBS regulations, the Bank calculates a buffer to protect the capital, capital buffer for systemically important banks and a capital buffer for structural systemic risk.

8. RISK MANAGEMENT

8.1. Targets and policies for managing financial risks

Risk management is the key element of managing the operation, given that exposure to risks stems from all business activities, as it is an inseparable part of banking operation that is managed through identifying, measuring, assessing, monitoring, controlling and mitigating, as well as limiting the risk and also reporting in accordance with the strategies and policies.

The Bank has established a comprehensive and reliable risk management system that includes: the framework for managing risks and the statement of assumed risk, strategies, policies and procedures for managing risks, methodologies for managing individual risks, appropriate organizational structure, effective and efficient process of managing all the risks that the Bank is exposed to or could be exposed to in its operation, adequate internal control system, appropriate information system and adequate internal capital adequacy assessment process. Also, the Bank, Recovery Plan is integrated into the risk management system, as well as the mechanism for early identification of a situation of grave financial disturbance, as part of which the Bank may take measures and implement the defined recovery options with the aim of preventing the entry into the early intervention stage where the regulator has active participation or the improvement of the already deteriorated financial condition. The framework for managing risks is the formalization of the Bank's appetite for materially significant risks which means defining the targets, tolerance and the limit for all the materially significant risks that can be quantified. In the Risk Management Strategy and the Capital Management Strategy and Plan the Bank has set the following targets within the risk management system: minimizing the adverse effects on the financial result and the capital while observing the specified volume of acceptable risk level, maintaining the necessary level of capital adequacy, development of the Bank's activities in accordance with the business strategy and the possibility and development of the market with the aim of creating competitive advantages, diversification of risks the Bank is exposed to, maintain the share of NPLs in total loans at the level below the set limit, maintaining the concentration risk ratio on the basis of exposure to certain types of products below the level prescribed by the regulations, maintaining the ratio of coverage by liquid assets above the level specified in the regulations and internal limits. The Bank permanently monitors all the announcements and the amendments to the regulatory framework, analyses the effect on the risk level and assumes measures for timely adjustment of its operation to new regulations.

The Bank has implemented the activities on bringing itself into compliance with the new regulations, particularly in the part that concerns the regulatory framework that regulates the measures for preserving the stability of the financial system, as well as support to the economy to mitigate the consequences of COVID-19 pandemic that were introduced by the National Bank of Serbia and the Ministry of Finance of the Republic of Serbia (repayment freeze (moratorium), guarantee scheme, etc.) in the environment caused by the COVID-19 pandemic. Through a clearly defined process of introducing new and significantly amended products, services and activities related to the processes and systems, the Bank analyzes their effect on future exposure to risks with the aim of optimizing its revenue and expenses for estimated risk, as well as minimizing all the potentially possible adverse effects on the Bank's financial result. A more detailed overview of targets and risk management policies of the Bank is shown in the Notes to Financial Statements.

Policy of protection from exposure to credit risk

With the aim of protection against exposure to credit risk, the Bank implements the techniques for mitigating the credit risk by obtaining also acceptable security instruments (collaterals) as secondary sources of loan collection. The Bank is trying to operate with creditworthy clients, assessing the creditworthiness at the moment the application is filed and by regularly monitoring the borrower, the loans and collaterals, with the aim of undertaking the appropriate activities in the collection process, in a timely manner. Types of security of receivables depend on the assessment of the borrower's credit risk and are established in each specific case individually and they are obtained after the contract is signed and before the loan is disbursed.

The Bank has regulated with its internal by-laws the appraisal of credit protection instruments and management of those instruments.

The Bank pays particular attention to the marketability and adequate appraisal of collaterals, in relation to which, when appraising a collateral, it hires authorized appraisers in order to reduce the potential risk of unrealistic appraisal to the lowest possible extent, while real estate, goods, equipment and other movable items that are pledged must be insured at an insurance company acceptable for the Bank, with insurance policies assigned in favor of the Bank.
With the aim of protection against the changes in the market value of collaterals, the appraised value is adjusted for the defined percentage of reduction depending on the type of collateral and the property's location, which are regularly analyzed and revised.

The Bank pays particular attention to monitoring the collaterals and undertakes activities on securing new appraisals, but also on obtaining additional collaterals, primarily at the clients with identified problems in operation, but also at the clients where the coverage of exposure by collaterals is decreased due to the decline in the value of obtained collaterals.

With the aim of adequately managing risks, the Bank implements activities on analyzing credit risk when approving loans and establishing a system for monitoring, prevention and management of risk lending, including also adequate identification of potentially risky clients (watch list), mitigates credit risk among clients in this status by implementing the measures and actions aimed at protecting the Bank's interest and preventing the adverse effects on the Bank's financial result and equity.

In the first half of 2020 the Bank continued to improve the risk management system. The Bank has revised it's Risk Management Strategy (decreased the highest acceptable level of NPL, defined the targets, tolerance and limits for the most important risk parameters), supplemented and amended the procedures and methodologies with the aim of bringing the Bank into compliance with amended national and international regulations and improved business practice.

In the first half of 2020, in the environment caused by the COVID-19 pandemic, the Bank continued successfully with the activities of improving the quality of the loan portfolio by reducing the occurrence of newer NPLs and resolving the problem of clients that have already been recognized as problem clients and also implemented the activities on decreasing the NPLs (collection and write-off by transferring the fully impaired receivables into off-balance-sheet records). In accordance with the Decision of the National Bank of Serbia on accounting write-off of the Bank's balance-sheet assets, the Bank continued to transfer the 100% impaired loans from balance-sheet into off-balance-sheet records, which resulted in a decrease in NPL ratio.

The level of security for credit risk for PL portfolio at the end of the second quarter 2020 was, to a significant extent, the result of changed expectations of macroeconomic indicators for the upcoming period due to COVID-19 pandemic, as well as expectations regarding the effects of the pandemic on the real sector and the general population, which might result in deterioration in the level of credit risk with their partial mitigation by a set of support measures passed by the Government of the Republic of Serbia and the National Bank of Serbia. Due to these reasons the Bank paid particular attention to the analysis of the clients whose business activity is focused on industries that are particularly exposed to the effects of potential crisis caused by the COVID-19 pandemic, which resulted in an increase in Level 2 – PL clients with identified deterioration of the credit risk. As the result of all this, the Bank made additional adjustments to the level of impairment for credit risks that reflects in allocation of additional impairment buffer.

As one of the support measures that were passed, in the first half of 2020 the National Bank of Serbia adopted a decision that prescribes a freeze on repayment of borrowers' liabilities (moratorium[16]) in the environment of potential risks caused by the extraordinary health situation in the country and adjusted the existing regulations in the area of managing risks that the Bank has brought itself into compliance with in a timely manner.

Also, the Government of the Republic of Serbia passed a decree on the guarantee scheme as support to financing corporate clients within which it was planned to invest EUR 2 bn of loans in accordance with which credit risk is distributed partly onto the state as well.

[16] The moratorium is prescribed for all borrowers who wish to use it (private individuals, farmers and entrepreneurs and corporate entities) and calls for a freeze in repayment of liabilities that cannot be shorter than 90 days i.e. from the duration of the extraordinary situation that was declared due to the COVID-19 pandemic. The Moratorium lasted from 31.03.2020 to 30.06.2020.

The Bank implements the IFRS 9 standard and, in accordance with this standard, it calculates the impairment of balance-sheet assets and the probable loss from off-balance-sheet items. The Bank applies the concept of "expected losses" by including the effect of the expected trends in the macroeconomic factors on future trends in the probability of occurrence of the default status on the basis of statistically proven interdependence, where in the first half of 2020 the Bank increased its scope of clients on Level 2 through individual analysis of clients who operate in jeopardized business activities for which it is expected that the credit risk will increase. Also, an additional impairment buffer was introduced for the portfolio of PL clients on the basis of expert assessments, given that the Bank's previous experience differs significantly from the current conditions caused by COVID-19 pandemic. Including additional expert assessments in the expected trends in default rate is based on the assumption that the crisis caused by the effects of the pandemic will result in a combination of V and U curves that are characterized by lower effects during 2020, given the set of support measures with an increase in negative effects during 2021 with an expected recovery in 2022. The portfolio is differentiated into three levels that monitor the clients' status (level 1 – PL clients without the identified deterioration in the credit risk, level 2 – clients with identified deterioration of the credit risk - measured with a set of defined criteria, level 3 – NPL clients), while defining the criteria for reclassifying clients from higher levels into lower that wee additionally improved in 2019. Also, in accordance with the IFRS 9 standard, the Bank calculates the impairment also for exposure to the Republic of Serbia and the National Bank of Serbia.

Increase in impairments, in real terms, (P&L) in the first half of 2020 was caused by a growth in the existing risk placements of corporate clients as the result of assessed increase in credit risk due to deterioration of the financial conditions, accompanied by an increase at PL corporate and retail clients, due to reclassification of certain clients from level 1 into level 2 as the result of identified deterioration of credit risk due to a significant effect of the COVID-19 pandemic on certain business activities, with a slight increase in the probability of default as the result of a change in the expected trends in macroeconomic factors in the form of additional impairment buffer. Also, growth in lending in the Retail Division also influenced the increase in impairments in the P&L in real terms. On the other hand, impairments in the balance-sheet decreased as the result of the transfer of 100% impaired lending from balance-sheet into off-balance-sheet records.

8.2. Exposure to risks (price, credit, liquidity and cash flow risk) with a strategy for managing risks and the assessment of their effectiveness

In its operation the Bank is particularly exposed to the following types of risks:

1. credit risk and risks associated with it,
2. liquidity risk,
3. market risk,
4. interest risk in the Banking book,
5. operating risk,
6. investment risk,
7. exposure risk,
8. country risk as well as all other risks that may arise in the Bank's regular operation.

Credit risk is the possibility of occurrence of adverse effects on the financial result and the Bank's capital due to the borrower defaulting on their liabilities to the Bank.

Credit risk is conditioned on the borrower's creditworthiness, whether their liabilities to the Bank are duly repaid, as well as the quality of security instruments. An acceptable level of exposure to credit risk is in accordance with the defined Framework for Managing Risks and the Risk Management Strategy and depends on the structure of the Bank's portfolio, on the basis of which it is allowed to limit the adverse effects on the Bank's financial result and capital while minimizing the capital, requirements for credit risk, counterparty risk, risk of a reduction in the value of purchased receivables, risk of settlement/delivery on the basis of free deliverables and with the aim of maintaining capital adequacy at an acceptable level. The Bank manages credit risk on the level of a client, group of related entities and the total loan portfolio. The Bank approves loans to clients (legal entities and private individuals) for whom it estimates that they are creditworthy by analyzing i.e. conducting quantitative and/or qualitative measurement and assessment of the borrower's credit risk and financial condition. The process of measuring credit risk is based on measuring the level of risk of an individual loan on the basis of the internal rating system, as well as on the basis of application of the National Bank of Serbia's regulations that requires classification of each loan on the basis of the set criteria.

By monitoring and controlling the portfolio on the whole and in certain segments, the Bank makes a comparison with previous periods, identified the trends and the causes of changes on the level of credit risk. Also, it monitors the asset quality indicators (trends in NPL, degree of coverage of NPL by impairments, etc.), as well as exposure to regulatory and internally defined limits. With its decision on managing concentration risk on the basis of a bank's exposure to certain types of products, the national Bank of Serbia prescribed, as of 01.01.2019, also an obligation to monitor the concentration risk and exposure to groups of products, such as exposure deriving from cash, consumer and other loans approved to private individuals with agreed maturity of over 8 years in 2019 and its further decrease in the following two years. Also, monitoring and reporting on the degree of loan indebtedness of private individuals (DTI ratio) was also introduced. These regulations were somewhat relaxed by amendments and supplements implemented by the National Bank of Serbia with the aim of bringing them into compliance with the current operational circumstance, caused by the COVID-19 pandemic. The process of monitoring the quality of loans allows the Bank to assess potential losses, as the result of the risk it is exposed to, and undertake appropriate corrective measures. On the other hand, the Bank does not invest into high-risk lending such as investment into potentially profitable projects but with high risk, investment funds of high-risk portfolio, etc.

Liquidity risk is the possibility of occurrence of adverse effects on the Bank's financial result and capital due to the Bank's inability to fulfill its due liabilities as the result of withdrawal of existing funding sources and the inability to obtain new funding sources – liquidity risk of the funding sources, as well as the hindered transformation of property into liquid assets due to market disturbance – market liquidity risk.

Liquidity risk is expressed through the Bank's difficulty in settling due receivables in case of insufficient liquidity reserves and the inability to cover the unexpected outflow of other liabilities. In its operation the Bank observes the key principles of liquidity, realizing a sufficient level of liquid assets to cover the liabilities arising within a short period i.e. observes the principle of solvency, by setting up an optimum structure of its own and borrowed funding sources and setting up a sufficient level of liquidity reserves that do not threaten the realization of the planned return on equity.

Liquidity risk is expressed in the Bank's inability to transform certain parts of assets into liquid assets within a short period. The Bank analyses the risk of funding sources and the market liquidity risk. The problem of liquidity from the aspect of funding sources relates to the structure of liabilities and is expressed through potentially significant share of unstable sources, short-term sources or their concentration. Liquidity risk of funding sources is actually the risk that the Bank will not be able to meet the liabilities due to the draw-down of unstable funding sources i.e. the inability to obtain new funding sources. On the other hand, liquidity risk is expressed also as the deficit of liquidity reserves and hindered or impossible procurement of liquid assets at acceptable market prices. During the first half of 2020 the Bank was compliant with the regulatory and internally specified limits and in the environment of somewhat lower inflow, due to the implementation of the moratorium for repayment of loans, during the second quarter, all liquidity risk ratios were considerably higher compared to the defined tolerance to risks and the limits. The Bank is actively taking preventive measures with the aim of minimizing the exposure to liquidity risk.

Market risk is the possibility of occurrence of adverse effects on the financial result and the equity of the Bank due to the changes in market variables and covers FX risk for all business activities it performs and market risk for the items in the trading book.

The Bank is exposed to ***foreign exchange risk*** which is manifested through the possibility of occurrence of negative effects on the financial result and capital due to volatility of exchange rates, ratios, changes in the value of domestic currency against foreign currencies or changes in the value of gold and other precious metals. In order to minimize the exposure to foreign exchange risk, the Bank diversifies the currency structure of the portfolio and the currency structure of liabilities, adjusting open positions by individual currencies, respecting the principles of maturity transformation of assets. During the H1 of 2020, the Bank complied with the regulatory foreign exchange risk ratio which is expressed as 20% of the regulatory capital, as well as with significantly more conservative internally defined limits, i.e., with a defined Risk Management Framework.

Interest rate risk is the risk of occurrence of negative effects on the financial result and capital of the Bank based on positions in the banking book due to unfavorable changes in interest rates. The Bank timely identifies the causes of current and estimates the factors of future exposure to interest rate risk in a comprehensive manner. Exposure to this type of risk depends on the ratio of interest rate sensitive assets and liabilities. Interest rate risk management aims to maintain an acceptable level of exposure to interest rate risk in terms of impact on the financial result and economic value of equity, by conducting an adequate policy of maturity repricing match and matching sources with investments according to interest rate level and maturity.

Operational risk is the risk of possible negative effects on the financial result and capital of the Bank due to failures in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the bank, as well as due to unforeseen external events. Operational risk also includes legal risk, which is the risk of adverse effects on the financial result and capital of the Bank based on court or out-of-court proceedings. The Bank takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, monitoring of key risk indicators that are an early warning for signaling changes in the Bank's risk profile, application of adequate and reliable information system, the implementation of which improves the business practices and optimizes the Bank's business processes. In order to minimize the legal risk and its impact on the financial result, the Bank continues to improve its business practice in the part of timely provisions for lawsuits against the Bank, and in accordance with the assessment of future expected loss on that basis.

The Bank's investment risk represents the risk of investing in other legal entities and in fixed assets and investment property. In accordance with the regulations of the National Bank of Serbia, the level of permanent investments is monitored and the Bank's Bodies and the Boards/Committees are notified thereof. In this way, it is ensured that the Bank's investment in a single entity that is not in the financial sector does not exceed 10% of the Bank's capital, and that the Bank's investments in entities outside the financial sector and in fixed assets and investment property of the Bank do not exceed 60% of the Bank's capital.

Large ***exposure of the Bank*** to a single entity or to a group of related entities, including the entities related to the Bank is the exposure which equals at least 10% of the Bank's capital. During the first half of 2020 the Bank complied with the regulatory and internally defined exposure limits.

Country risk is the risk related to the country of origin of the entity to which the Bank is exposed, i.e., the risk of possibility of occurrence of negative effects on the Bank's financial result and capital due to the Bank's inability to collect receivables from the debtors on account of political, economic or social circumstances in the debtor's country of origin. The Bank's exposure to country risk is at an acceptable level.

A detailed review and explanation of the risks to which the Bank is exposed in its operations is presented in item 5 of the Notes to the Financial Statements for the second quarter of 2020.

9. ALL MAJOR TRANSACTIONS WITH RELATED PARTIES

As at 30.06.2020 the entities related to the Bank are as follows:

1. Komercijalna banka a.d. Podgorica, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d. Beograd,
4. Five legal entities and a larger number of private individuals, according to the provisions of Article 2 of the Law on Banks, in the part which regulates the term "persons related to the bank".

Total exposure to persons related to the Bank, as of 30.06.2020 amounted to 1.631,6 million dinars, which in relation to the capital[17] of 66.753,8 million dinars represented 2.44% (the maximum value of total investments to all persons related to the Bank under the Law on Banks is 25% of the capital).

Pursuant to Article 37 of the Law on Banks, to persons related to the Bank the Bank did not approve loans on terms that are more favorable than the terms and conditions for granting loans to other persons that are not related to the Bank.

[17] Capital is calculated in accordance with the NBS regulations

10. DESCRIPTION OF SIGNIFICANT EVENTS

After the end of 2019, and during the first two quarters of 2020 of the most significant business events, we highlight that:

- On 09.03.2020 the regular General Meeting of Bank's Shareholders was held, at which the following decision was adopted:
    - Decision on Adoption of the Strategy and Business Plan of Komercijalna banka AD Beograd for the period 2020 -2022;
- On 28.04.2020 the regular General Meeting of Bank's Shareholders was held at which the following was adopted:
    - Decision on Adoption of the Annual Report on Business Operations of Komercijalna banka AD Beograd and Regular Financial Statements for the year 2019 with the opinion of the external auditor;
    - Decision on Adoption of the Annual Report on Business Operations of the Group and Consolidated Financial Statements of Komercijalna banka AD Beograd Group for the year 2019 with the opinion of the external auditor;
    - Decision on Distribution of Profit from the year 2019 and Retained Earnings from Previous Years.

Following the end of the second quarter, and up to the day of preparation of the Report, on 17.07.2020 the extraordinary General Meeting of Bank's Shareholders was held at which the following was adopted:

- Decision on Appointment of the External Auditor of the Bank for the year 2020 and
- Decision on Adoption of the Revised Strategy and Business Plan of Komercijalna banka AD Beograd for the period 2020 – 2022.

On 27.07.2020 the National Bank of Serbia passed a Decision on temporary measures for banks to mitigate the consequences of the COVID-19 pandemic in order to preserve the stability of the financial system.

The description of events after the balance sheet date is presented in item 6 of the Notes to the Financial Statements for the second quarter of 2020

11. PURCHASE OF OWN SHARES

The Bank has not any own shares as at 30.06.2020, nor did it own them during 2020. Also, the Bank does not intend to acquire its own shares in the coming period.

12. BASIC DATA ON THE IMPLEMENTATION OF THE BUSINESS PLAN FOR 2020

The end of business year 2019 and the beginning of 2020 were encountered by the Serbian economy with high economic growth rates, low inflation, balanced fiscal position, a reduction in the ratio of public debt to gross domestic product (GDP) and a recovery in the labor market. Such a starting position has helped the Serbian economy to readily respond to current challenges, especially those resulting from the COVID-19 virus pandemic.[18]

During 2019, GDP growth of 4.2% was achieved, and positive trends were also present in the first quarter of 2020, when the GDP growth rate of 5.0% was achieved. The appearance and spread of the COVID-19 virus, along with the need to take a number of health measures, affected economic activity both internationally and in Serbia, which was especially pronounced in the second quarter of 2020. The National Bank of Serbia expects that, as a result of a comprehensive package of measures that have been taken and are being taken, economic

[18] NBS, Macroeconomic trends in Serbia, July 2020

activity will recover in the second half of 2020, so that in 2020 the gross domestic product is expected to fall by about 1.5%.[19]

In the Notes to the financial statements for the first and the second quarter of 2020 The Bank elaborated on the possible impact of the COVID-19 virus pandemic and the implementation of the NBS Decision of 17.03.2020, on Interim Measures for Preserving the Stability of the Financial System, which regulates the measures and activities that the bank is obliged to implement in the conditions of the mentioned pandemic. The bank offered a delay in repayment of obligations (moratorium) to debtors under the loans, guarantees, letters of credit, authorized overdrafts and other credit products. In accordance with legal regulations and recommendations of public health institutions, the Bank has taken all necessary measures to conduct business activities in the changed conditions with the full protection of employees and clients.

In the first six months of this year, inflation is low and stable. The NBS projection is that inflation in the coming period will revolve around the lower bound of the target band, and that during the second half of 2021 it will approach the central target value. As a result of low domestic and foreign demand, low inflation in the euro area countries, as well as low oil prices in the medium term disinflationary pressures prevail[20].

In the previous three years, the Dinar strengthened against the Euro, cumulatively, by 5.0%.[21] The stability on the foreign exchange market continued in 2020, so that the value of the Dinar against the Euro is almost unchanged. In order to preserve the relative stability of the Dinar in periods when there was pressure to strengthen the Dinar, the National Bank of Serbia intervened by buying foreign currency, while in periods of higher demand for foreign currency, it intervened by selling foreign currency on the market.

Confirmation of Serbia's economic perspective can also be found in the projections of the three leading rating agencies. In September 2019, Fitch Ratings upgraded Serbia's credit rating from BB to BB + and reaffirmed it in March 2020, while Moody's upgraded Serbia's credit rating outlook from "stable" to "positive" in September 2019 (Ba3). In December 2019, S&P increased Serbia's credit rating from BB to BB + and pointed out the positive prospects for its further increase, which is confirmed in June 2020. After these corrections, Serbia's credit rating is one step away from the investment level[22].

The General Meeting of Bank's Shareholders at its session held on 09.03.2020 adopted the Strategy and Business Plan of Komercijalna banka a.d. Beograd for the period 2020 - 2022.

Due to significantly changed business circumstances that occurred during the first and part of the second quarter of 2020 due to the pandemic caused by the COVID-19 virus (business in a long period of time in a state of emergency, changed expectations regarding the trend of certain macroeconomic business indicators, introduction of three-month moratorium on loan repayment), and also due to the change in the manner of recording liabilities to employees based on the profit distribution bonus from 2019 the Bank, during the second quarter of 2020, started drafting a revised Strategy and Business Plan of Komercijalna banka a.d. Beograd for the period 2020 - 2022. The General Meeting of Bank's Shareholders, at the session held on July 17th, 2020, adopted the revised Strategy and Business Plan of Komercijalna banka a.d. Beograd for the period 2020-2022.

12.1. Planned and Realized Values of the Balance Sheet for the 2Q 2020

Total Balance Sheet Assets of the Bank, at the end of the first half of 2020, amount to 457.621 million dinars and in relation to the planned value for the end of the year it is higher by 23.705 million dinars, or by 5.5%.

Investment in securities as of 30.06.2020 amounts to 154.573 million dinars and is by 16.359 million dinars or by 11.8% above the planned amount for the whole year.

[19] Ditto
[20] Ditto
[21] Ditto
[22] NBS, Macroeconomic trends in Serbia, July 2020

Loans to customers at the end of the H1 of 2020 stand at 192.437 million dinars. In order to achieve the planned level of loans granted to customers, it is necessary for the Bank to invest funds in the amount of 3.411 million dinars in the next two quarters, i.e., to achieve a growth of 1.7%.

At the end of the first half the total deposits amount to 361.987 million dinars and are above the annual planned level by 11.357 million dinars or by 3.2%. Retail deposits amount to 295.757 million dinars and stand by 10.511 million dinars or 3.7% above the planned level.

Total amount of other payables and other liabilities as of 30.06.2020 is 22.098 million dinars (this mainly consists of balance sheet position „other liabilities", which amounts to 17.936 million dinars) and is above the annual planned value by 15.435 million dinars. They are expected to be lowered and returned to the plan framework by the end of the year.

Realized and Planned Assets and Liabilities Positions in the Balance Sheet as at 30.06.2020 have the following values:

(In million RSD)

No.	POSITION	Plan 31.12.2020	Realized 30.06.2020	INDEX
1	2	3	4	5=(4:3)*100
	ASSETS			
1.	Cash and cash equivalents	70.735	76.487	108,1
2.	Securities	138.214	154.573	111,8
3.	**Loans to customers (3.1.+3.2.+3.3.)**	**195.848**	**192.437**	98,3
3.1.	Enterprises	85.939	83.069	96,7
3.2.	Retail	105.954	105.274	99,4
3.3.	Banks and financial organizations	3.954	4.094	103,5
4.	Other assets	29.119	34.124	117,2
5.	**TOTAL ASSETS (1.+2.+3.+4.)**	**433.916**	**457.621**	105,5
	LIABILITIES			
1.	**Deposits (1.1.+1.2.+1.3.)**	**350.630**	**361.987**	103,2
1.1.	Enterprises	50.760	50.876	100,2
1.2.	Retail	285.246	295.757	103,7
1.3.	Banks and financial organizations	14.624	15.354	105,0
2.	Other payables and other liabilities	6.663	22.098	331,7
3.	**Total liabilities (1.+2.)**	**357.293**	**384.085**	107,5
4.	**Total capital**	**76.623**	**73.536**	96,0
5.	**TOTAL LIABILITIES (3.+4.)**	**433.916**	**457.621**	105,5

12.2. Planned and Realized Values of P&L for the period 01.01 - 30.06.2020

(In million RSD)

No.	POSITION	Plan 01.01.-30.06.2020.	Realized 01.01.-30.06.2020	INDEX
1	2	3	4	5=(4:3)*100
1.1.	Interest income	6.534	6.526	99,9
1.2.	Interest expenses	(575)	(574)	99,9
1.	**Interest gain (1.1.+1.2.)**	**5.959**	**5.952**	**99,9**
2.1.	Fee and commission income	3.238	3.226	99,6
2.2.	Fee and commission expenses	(837)	(846)	101,0
2.	**Fee and commission gain (2.1. +2.2.)**	**2.401**	**2.380**	**99,1**
3.	Net exchange differences and change in value (currency clause)	0	(8)	
4.	Net other operating income	552	556	100,7
5.	Net expenses/income from impairment of financial assets that are not measured at fair value through P&L	(291)	(99)	34,0
6.	Operating expenses	(5.938)	(5.870)	98,9
7.	**OPERATING PROFIT (BEFORE TAX) (1+2+3+4+5+6)**	**2.683**	**2.910**	**108,4**

In period 01.01 - 30.06.2020 the Bank generated the profit before tax in the amount of 2.910 million dinars, which is by 227 million dinars or 8.4% above the planned value.

The planned net interest income has been realized with 99.9%, while net fee income has been realized with 99.1%.

In six months of 2020, the Bank realized operating expenses in amount of 5.870 million dinars, which is by 67 million dinars or 1.1% below the planned amount.

Net other operating income has been realized in amount of 556 million dinars, which is by 4 million dinars or 0.7% above the planned amount.

Net expenses arising from decreased impairment of financial assets that are not measured at fair value through P&L are planned in the amount of 291 million dinars, and the expenses are realized amounting to 99 million dinars.

Signed on behalf of Komercijalna banka ad Beograd

Svetlana Todorović
Director
Financial Reporting Department

Miroslav Perić, PhD
Member of the Executive Board

BALANCE SHEET

on 30.06.2020.

(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	76.487.156	67.558.219
Pledged financial assets	0002	-	-
Receivables under derivatives	0003	3.490	-
Securities	0004	154.573.244	138.469.551
Loans and receivables from banks and other financial organisations	0005	19.163.611	24.733.958
Loans and receivables from clients	0006	188.897.608	180.852.563
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	3.433.697	3.433.697
Intangible investments	0011	568.956	665.735
Property, plant and equipment	0012	6.208.933	6.437.937
Investment property	0013	1.838.717	1.857.927
Current tax assets	0014	-	-
Deferred tax assets	0015	1.039.709	1.074.197
Non-current assets held for sale and discontinued operations	0016	138.017	196.300
Other assets	0017	5.268.256	7.100.359
TOTAL ASSETS (from 0001 to 0017)	0018	457.621.394	432.380.443
LIABILITIES			
LIABILITIES Liabilities under derivatives	0401	-	-
Deposits and other liabilities to banks, other financial organisations and central bank	0402	4.532.788	5.021.756
Deposits and other financial liabilities to clients	0403	359.771.391	335.317.154
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	1.844.969	2.328.130
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	-	-
Deferred tax liabilities	0411	-	-
Other liabilities	0412	17.936.010	13.861.230
TOTAL LIABILITIES (from 0401 to 0412)	0413	384.085.158	356.528.270
CAPITAL			
CAPITAL Share capital	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	5.134.343	10.425.898
Loss	0417	-	-
Reserves	0418	28.367.343	25.391.725
Unrealized losses	0419	-	-
Non-controlling participation	0420	-	-
TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0	0421	73.536.236	75.852.173
TOTAL CAPITAL SHORTFALL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0	0422	-	-
TOTAL LIABILITIES (0413 + 0421 - 0422)	0423	457.621.394	432.380.443

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД 4

INCOME STATEMENT

from 01.01.2020. to 30.06.2020.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.04.-30.06.	01.01.-30.06.	01.04.-30.06.	01.01.-30.06.
1	2	3*	4**	5	6
Interest income	1001	3.198.885	6.525.686	3.432.942	6.840.919
Interest expenses	1002	287.444	574.142	257.376	533.787
Net interest gains (1001-1002)	1003	2.911.441	5.951.544	3.175.566	6.307.132
Net interest losses (1002-1001)	1004	-	-	-	-
Income from fees and commissions	1005	1.588.053	3.225.705	1.812.385	3.398.418
Expenses on fees and commissions	1006	407.332	845.769	423.917	793.868
Net gains from fees and commissions (1005 - 1006)	1007	1.180.721	2.379.936	1.388.468	2.604.550
Net losses on fees and commissions (1006 - 1005)	1008	-	-	-	-
Net gains from changes in fair value of financial instruments	1009	64.853	35.085	13.295	36.998
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	32.065	108.307	142.948	201.317
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	8.994	-	4.072	9.160
Net exchange rate losses and losses on agreed currency clause	1018	-	8.161	-	-
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	-	-	1.195.873	1.637.952
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	105.121	99.159	-	-
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	-	-	590.451	590.451
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	38.876	125.186	36.192	68.494
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	4.131.829	8.492.738	5.365.963	10.275.152
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	2.000.099	3.110.456	1.096.621	2.177.607
Depreciation costs	1029	246.538	492.842	247.752	496.957
Other income	1030	64.203	734.678	117.627	409.063
Other expenses	1031	1.307.713	2.714.297	1.469.063	3.671.005
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	641.682	2.909.821	2.670.154	4.338.646
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0	1033	-	-	-	-
Profit tax	1034	-	-	-	-
Gains from deferred taxes	1035	17.252	17.252	293	293
Losses on deferred taxes	1036	158.749	158.749	147	147
PROFIT AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0	1037	500.185	2.768.324	2.670.300	4.338.792
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	500.185	2.768.324	2.670.300	4.338.792
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 АД БЕОГРАД
БЕОГРАД
4

from 01.01.2020. to 30.06.2020.

STATEMENT OF OTHER COMPREHENSIVE RESULT

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.04.-30.06.	01.01.-30.06.	01.04.-30.06.	01.01.-30.06.
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	500.185	2.768.324	2.670.300	4.338.792
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	-	7.894	-	-
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	289.459	25.076	177.905	458.739
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	-	863	-	-
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	401.423	-	1.381.276	611.343
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	-	745.498	-	-
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		111.954		
Tax losses relating to other comprehensive income for the period	2028	103.632	4.945	233.877	160.512
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	**587.250**	-	**1.325.304**	**909.570**
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	-	**606.382**	-	-
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	**1.087.435**	**2.161.942**	**3.995.604**	**5.248.362**
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.

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД 4

CASH FLOW STATEMENT

from 01.01.2020. to 30.06.2020.

(in RSD thousand)

	POSITION	ADP code	Amount	
			01.01.-30.06.2020.	01.01-30.06.2019.
	1	2	3*	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflow from operating activities (from 3002 to 3005)**	3001	10.173.362	12.470.997
1.	Interest	3002	6.630.220	8.192.185
2.	Fees	3003	3.263.357	3.443.954
3.	Other operating income	3004	275.696	831.831
4.	Dividends and profit sharing	3005	4.089	3.027
II.	**Cash outflow from operating activities (from 3007 to 3011)**	3006	5.489.730	5.847.250
5.	Interest	3007	390.374	408.850
6.	Fees	3008	862.864	754.039
7.	Gross salaries, salary compensations and other personal expenses	3009	1.842.502	1.836.097
8.	Taxes, contributions and other duties charged to income	3010	394.997	407.557
9.	Other operating expenses	3011	1.998.993	2.440.707
III.	**Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	4.683.632	6.623.747
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	22.944.113	3.482.880
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	-
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	22.944.113	3.482.880
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	6.024.875	5.017.236
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	5.963.981	2.965.123
17.	Increase in receivables under securities and other financial assets not intended for investment	3023	60.894	2.052.113
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	-	-
20.	Decrease in other financial liabilities	3026	-	-
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	21.602.870	5.089.391
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3029	-	-
22.	Profit tax paid	3030	-	-
23.	Dividends paid	3031	-	-
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	21.602.870	5.089.391
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	-	-
B.	**CASH FLOWS FROM INVESTMENT ACTIVITIES**			
I.	**Cash inflow from investing activities (from 3035 to 3039)**	3034	15.161.148	37.959.191
1.	Investment in investment securities	3035	15.161.148	37.959.191
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	33.614.862	35.782.963
6.	Investment into investment securities	3041	33.525.707	35.410.067
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	89.155	372.896
9.	Purchase of investment property	3044	-	-
10.	Other outflow from investing activities	3045	-	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	-	2.176.228
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	18.453.714	-
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflow from financing activities (from 3049 to 3054)**	3048	107.383.669	36.344.769
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	107.383.669	36.344.769
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	106.565.425	36.493.083
7.	Purchase of own shares	3056	-	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	106.349.622	36.306.956
10.	Issuance of securities	3059	-	-
11.	Other outflow from financing activities	3060	215.803	186.127
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	818.244	-
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	-	148.314
D.	TOTAL CASH INFLOWS (3001 + 3014 + 3034 + 3048)	3063	155.662.292	90.257.837
E.	TOTAL CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	151.694.892	83.140.532
F.	NET INCREASE IN CASH (3063 - 3064)	3065	3.967.400	7.117.305
G.	NET DECREASE IN CASH (3064 - 3063)	3066	-	-
H.	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	40.866.651	40.375.748
I.	EXCHANGE RATE GAINS	3068	307.543	228.411
J.	EXCHANGE RATE LOSSES	3069	223.540	199.436
K.	CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)	3070	44.918.054	47.522.028

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 01.01.2020 to 30.06.2020

(in RSD thousand)

ITEM	ADP code	Share capital and other equity (accounts 300, 301,803, 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	14.223.535	4129	4.254.737	4147		4165	9.047.691	4203	0	4241		4285	67.560.513	4291	
Effects of the first implementation of new IFRS - increase	4002		4034		4066		4098		4130		4148		4166		4204		4242					
Effects of the first implementation of new IFRS – decrease	4003		4035		4067		4099		4131		4149		4167		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	14.223.535	4134	4.254.737	4152	0	4170	9.047.691	4208	0	4246		4286	67.560.513		
Total positive other comprehensive income for the period									4135	2.571.781	4153				x		4247					
Total negative other comprehensive income for the period									4136		4154				x		4248					
Profit for the current year													4171	8.956.759	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	4.341.672					4176		4214		4255					
Distribution of profit and/or coverage of losses – decrease	4010		4042		4074		4106						4177	4.341.672	4215		4256					
Dividend payments	4011		4043		4075		4107						4178	3.258.073	4216		4257					
Other – increase	4012		4044		4076		4108						4179	22.193	4217		4258					
Other – decrease	4013		4045		4077		4109						4180		4218		4259					
Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0	4014	0	4046	0	4078	0	4110	4.341.672					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	7.577.552	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	18.565.207	4137	6.826.518	4155	0	4183	10.425.898	4221	0	4262		4287	75.852.173	4293	
Opening balance as at 1 January of the current year	4017	17.191.466	4049		4081	22.843.084	4113	18.565.207	4138	6.826.518	4156	0	4184	10.425.898	4222	0	4263		4288	75.852.173	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	18.565.207	4143	6.826.518	4161	0	4189	10.425.898	4227	0	4268		4289	75.852.173	4295	
Total positive other comprehensive income for the period									4144		4162				x		4269					
Total negative other comprehensive income for the period									4145	606.382	4163				x		4270					
Profit for the current year													4190	2.768.324	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	3.582.000					4195		4233		4277					
Distribution of profit and/or coverage of losses – decrease	4026		4058		4090		4122						4196	3.582.000	4234		4278					
Dividend payments	4027		4059		4091		4123						4197	4.477.879	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	3.582.000		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	8.059.879	4239	0	4283					
Balance as at 30 June 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	22.147.207	4146	6.220.136	4164	0	4202	5.134.343	4240	0	4284		4290	73.536.236	4296	

БЕОГРАД
4

NOTES

TO FINANCIAL STATEMENTS FOR THE SECOND QUARTER OF 2020

Belgrade, August 2020

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.

The largest shareholder of the Bank is:

The Republic of Serbia	83.23%

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 at 30 June 2020, the Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 6 business centers, three sectors for work with small and medium-sized enterprises, 1 branch and 203 sub-branches.

As of 30 June 2020, the Bank had 2,710 employees, and as of 31 December 2019 it had 2,744 employees. 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.

By implemented IFRS 9 standard, legal regulations of the NBS have been amended, which complied the banks to apply to new forms of financial statements in effect as of the 1st of January 2018. These changes were applied when preparing and presenting the financial statements of the Bank as of January 1, 2018.

The Bank implemented the new IFRS 16 from the date of its coming into effect on 01 January 2019 and adjusted the Accounting policies that are adopted by the Board of Directors of the parent Bank in June 2019.

New Accounting policies in relation to previous ones, in addition to performed supplements to the requirements of the accounting standard IFRS 16 – Leases, contain also supplements that specify the fees which make an integral part of EIR and method of accrual of fees, in compliance with the requirements of IFRS 9.

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.

At drawing-up quarterly financial statements for 2020, 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 recognizes 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 recognize 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.

Subsequent valuation of lease asset and liability:

In accordance with IFRS 16 the Bank as leaseholder/lessee recognizes the asset with the right to use and the lease liability on the date of the lease start. The date of the start of leasing is the date on which the leasing provider/lessor makes the underlying asset (that is, the asset which is the subject of leasing) available to the lessee.

The Bank as the lessee, *initially* (on the date of the start of the lease) measures the value of the asset with the right to use at purchase value.

Subsequently, recognized purchase value is reduced by:

- Accumulated depreciation (whereby the depreciation is calculated under straight-line method) and
- Accumulated losses from reduction of value, pursuant to IAS 36.

The Group as the lessee, should **combine two or more contracts** concluded at the same time or close in time with the same contractual party (or persons related to the contractual party), and should also calculate/anticipate the contracts as one contract, if the contracts are negotiated as a package with the general commercial objective that cannot be understood without their mutual review, the amount of fee that is paid in one contract depends on price or execution of the other contract or the right to use the underlying assets that are transferred by contracts (or some rights to use the underlying asset that are transferred in each of the contracts) make for unique component of the lease.

The Bank as the lessee, initially (on the date of the start of the lease) and subsequently, measures the value of the lease liability as follows:

Initially at the present value of the future lease payments which will be performed during the lease period and includes:

- Present value of leasing installments and
- Present value of expected payments at the end of the lease agreement

When calculating the present value of lease payments three parameters must be determined: lease period, lease payments and applicable interest (discount) rate.

Accordingly, the lease liability is accumulated by using the amount which provides for constant periodical discount rate on the remaining amount of liability (or the discount rate is established at the beginning of the lease period, until a reassessment is conducted which requires a change in discount rate). The lease payment reduces the lease liability once it is disbursed.

Subsequently, the Bank measures the value of the lease liability, also at the present value of the future lease payments that will be performed during the lease period, as follows:

- By increasing the present value of the future lease payments from previous period for the interest expenses by using the effective interest method, through applying the discount rate determined at the beginning of the lease period (provided it was not subsequently changed) and
- By reduction for performed payments under the lease.

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 fulfillment 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 fulfillment 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 calculated at amortized 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 categorizes 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 liability is 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 the conditions which are potentially unfavorable ones.

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 30 June 2020, with comparative data for 2019, 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), apples from 1st January 2018 and can be seen in more detail from the following overview:

In thousand RSD

	30.06.2020		31.12.2019	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	76,487,156	16.71	67,558,219	15.62
Receivables from derivatives	3,490	-	138,469,551	32.03
Securities	154,573,244	33.78	-	-
Loans and receivables due from banks and other			24,733,958	5.72
financial organizations	19,163,611	4.19	180,852,563	41.83
Loans and receivables from customers	188,897,608	41.28	3,433,697	0.79
Investments in subsidiaries	3,433,697	0.75	665,735	0.15
Intangible assets	568,956	0.12	6,437,937	1.49
Property, plant and equipment	6,208,933	1.36	1,857,927	0.43
Investment property	1,838,717	0.40	1,074,197	0.25
Deferred tax assets	1,039,709	0.23		
Non-current assets held for sale and assets from			196,300	0.05
discontinued operations	138,017	0.03	7,100,359	1.64
Other assets	5,268,256	1.15		
TOTAL ASSETS	**457,621,394**	**100.00**	**432,380,443**	**100.00**

LIABILITIES	Amount	%	Amount	%
Deposits and other financial liabilities to banks, other financial organizations and the Central Bank	4,532,788	0.99	5,021,756	1.16
Deposits and other financial liabilities to other customers	359,771,391	78.62	335,317,154	77.55
Provisions	1,844,969	0.40	2,328,130	0.54
Deferred tax liabilities	-	-	-	-
Other liabilities	17,936,010	3.92	13,861,230	3.21
Total liabilities	**384,085,158**	**83.93**	**356,528,270**	**82.46**
Capital				
Share capital	40,034,550	8.75	40,034,550	9.26
Profit	5,134,343	1.12	10,425,898	2.41
Reserves	28,367,343	6.20	25,391,725	5.87
Total capital	**73,536,236**	**16.07**	**75,852,173**	**17.54**
TOTAL LIABILITIES	**457,621,394**	**100.00**	**432,380,443**	**100.00**

INCOME STATEMENT

Income and expense structure for 2020 as follows:

In thousand RSD

INCOME	30.06.2020 Total	30.06.2019 Total
Interest income	6,525,686	6,840,919
Interest expenses	(574,142)	(533,787)
Net interest income	**5,951,544**	**6,307,132**
Fee and commission income	3,225,705	3,398,418
Fee and commission expenses	(845,769)	(793,868)
Net fee and commission income	**2,379,936**	**2,604,550**
Net gain from changes in fair value of financial instruments	35,085	36,998
Net gain based on derecognition of financial instruments that are measured at fair value	108,307	201,317
Net income from exchange differentials and the effects of agreed currency clause	-	9,160
Net expense from exchange differentials and the effects of agreed currency clause	(8,161)	-
Net income from reduced impairment of financial assets that are not measured at fair value through PL	-	1,637,952
Net expense from impairment of financial assets that are not measured at fair value through P&L	(99,159)	-
Net loss from ending the recognition of financial instruments that are measured at amortized value	-	(590,451)
Other operating income	125,186	68,494
Total net operating income	**8,492,738**	**10,275,152**
Cost of salaries, allowances and other personnel expenses	(3,110,456)	(2,177,607)
Depreciation cost	(492,842)	(496,957)
Other income	734,678	409,063
Other expenses	(2,714,297)	(3,671,005)

Profit /loss before tax	**2,909,821**	**4,338,646**
Profit from deferred tax	**17,252**	**293**
Loss from deferred tax	**(158,749)**	**(147)**
Result for the period (profit /loss)	**2,768,324**	**4,338,792**

CASH FLOW STATEMENT

Cash flows achieved in 2020 are shown in the table below:

In thousand RSD

	30.06.2020	30.06.2019
Item	Total	Total
Cash inflows from operating activities	**10,173,362**	**12,470,997**
Inflow from interest	6,630,220	8,192,185
Inflow from fees	3,263,357	3,443,954
Inflow from other operating activities	275,696	831,831
Inflow from dividends and share in profit	4,089	3,027
Cash outflows from operating activities	**(5,489,730)**	**(5,847,250)**
Outflow from interest payments	(390,374)	(408,850)
Outflow from fee payments	(862,864)	(754,039)
Outflows from payments for gross salaries, allowances and other personnel expenses	(1,842,502)	(1,836,097)
Outflow from taxes, contributions and other duties charged to expense	(394,997)	(407,557)
Outflows for other operating expenses	(1,998,993)	(2,440,707)
Net cash inflow from operating activities before increase or decrease in financial assets and financial liabilities	**4,683,632**	**6,623,747**
Decrease in financial assets and increase in financial liabilities	**(22,944,113)**	**(3,482,880)**
Increase in deposits and other financial liabilities towards banks and other financial organizations, central bank and customers	(22,944,113)	(3,482,880)
Increase in financial assets and decrease in financial liabilities	**6,024,875**	**5,017,236**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	5,963,981	2,965,123
Increase in receivables based on securities and other financial assets not intended for investment	60,894	2,052,113

	30.06.2020	30.06.2019
Item	Total	Total
Net inflow of cash from operating activities before profit tax	**21,602,870**	**5,089,391**
Net outflow of cash from operating activities before profit tax	**-**	**-**
Net inflow of cash from operating activities	**21,602,870**	**5,089,391**
Net outflow of cash from operating activities	**-**	**-**
Cash inflow from investment activities	**15,161,148**	**37,959,191**
Inflow from investment securities	15,161,148	37,959,191
Cash outflow from investment activities	**(33,614,862)**	**(35,782,963)**
Outflow from investing in investment securities	(33,525,707)	(35,410,067)
Outflow for purchase of intangible assets, property, plants and equipment	(89,155)	(372,896)
Net inflow of cash from investment activities	**-**	**-**
Net outflow of cash from investment activities	**(18,453,714)**	**(2,176,228)**
Cash inflow from financing activity	**107,383,669**	**36,344,769**
Inflow from borrowings	107,383,669	36,344,769
Cash outflow from financing activity	**(106,565,425)**	**(36,493,083)**
Outflow of cash from borrowings	(106,349,622)	(36,306,956)
Other outflows from financing activity	(215,803)	(186,127)
Net outflow of cash from financing activity	**818,244**	**-**
	-	**(148,314)**
Total cash inflow		
Total cash outflow	**156,964,810**	**90,257,837**
Net increase in cash	**(152,997,410)**	**(83,140,532)**
Net decrease in cash	**3,967,400**	**7,117,305**
	-	**-**
Cash and cash equivalents at the start of the year	**40,866,651**	**40,375,748**
Exchange rate gains	307,543	228,411
Exchange rate loss	(223,540)	(199,436)
End of period cash and cash equivalents	**44,918,054**	**47,522,028**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

Interest income also includes income based on financial risk protection instruments, mainly by pegging the annuities to the exchange rate of the Dinar against the EUR, another foreign currency or to the retail price 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..

By Accounting policies of the Bank from June 2019 specific fees are more closely defined that form an integral part of EIR and their accrual method during the period of loan term, as well as their recording within interest income, in accordance with IFRS 9.

Fees that are part of effective interest rate of financial instrument, pursuant to IFRS 9, comprise the following types of fees:

- Fee charged by the Bank in relation to issuing or acquiring the financial asset. Such fees can include compensations for activities of assessment of the financial standing of the borrower, the assessment and recording the guarantees, collaterals and other security arrangements, negotiations regarding conditions of the financial instrument, preparation and processing of documents and closing the transaction;
- Fee received by the Bank for approval of loan when it is probable that the credit arrangement will be realized;
- Fees that are paid on the basis of issuing the financial liabilities that are measured at amortized cost.

At the time of initial recognition of loans approved to private individuals and legal entities, the Bank as a part of effective interest rate which is included in amortized value of loans, includes the fees for loan application processing that are charged to clients, private individuals or legal entities, when approving the loan, and which are accrued by EIR method during the period of loan term and are recognized as interest income.

Exceptionally, if the fee for loan application processing is received on the basis of revolving loan or approved overdrafts on current accounts, given the fact that it is not possible to foresee the level and dynamics of utilizing the approved assets, the fee is accrued at straight-line method during the period of loan term and is recognized as interest income.

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 – June 2020 amounts to RSD 5,951,544 thousand and is lower by RSD 355,588 thousand or 5.64% compared to the same period last year.

Realized net interest income is lower compared to the planned values from the Business plan for the first six months of 2020 by 7,398 thousand dinars.

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.

Pursuant to the Accounting Policies if the fee for client's loan application processing is received on the basis of given guarantees, letters of credit, guarantees of a bill, discount of factoring, the same is accrued at straight-line method during the period of duration of the instrument and is recognized as fee income.

In case of syndicated loan it is important to differentiate on which basis such fee is received, and if the fee is received:

- For service of service arranger /agent– it is recorded as fee income, it is not a part of effective interest rate and is accrued during the period of loan term;
- For service of creditor – it is recorded as interest income; it forms a part of effective interest rate and is accrued during the period of loan term by EIR method.

Net fee and commission income in the period January – June 2020 amounts to RSD 2,379,936 thousand and is lower compared to the same period 2019 by 8.62% or RSD 224,614 thousand.

3.3. Net profit 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 2020 the Bank reported net profit on the basis of the change in the fair value of financial instruments held for trading in the amount of RSD 35,085 thousand (bonds of the Republic of Serbia and investment units of Kombank money fund).

When derecognizing the securities at fair value through other comprehensive income with recognition through income statement (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 when derecognizing the securities at fair value through income statement the previously formed amounts that relate to the change in the value are also recognized in the income statement as gains or loss from derecognition.

On the basis of derecognition of financial instruments that are measured at fair value through income statement and other comprehensive income net gains from sale were recorded in the amount of RSD 108,307 thousand (bonds and T-bills of the Republic of Serbia and gains from the sale of derivatives – swap transactions).

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

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

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

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

Loans and deposits in RSD, for which protection against risk was agreed by linking the RSD exchange rate to the EUR, to other foreign currency or to the growth of retail price index, were 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 expenses from exchange rate differentials in the reporting period January – June 2020 amount to RSD 8,161 thousand. The stated net expense 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 amortized cost, and securities measured at fair value through other comprehensive income.

Amortized cost 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 deduced 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 recognizes the impairment provision for all financial instruments measured at the amortized 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 calculation of impairment. Individual and group provisions are deduced 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 for impairment is terminated for the previously recognized loss due to impairment.

In period January – June 2020 the Bank recorded the net expense from reduction of impairment of financial assets and credit risk-bearing off-balance sheet items not measured at fair value through income statement in amount of RSD 99,159 thousand, while in the same period of 2019 net income on this basis totaled RSD 1,637,952 thousand. At the same period 2019 the dominant effect on the item net income came from the release of indirect write-off of share in the equity of subsidiary banks that are valued and purchasing value, on the basis of the revaluation of the share in subordinate legal entities in the amount of 826,714 thousand dinars and collection of receivables from February 2019 that the Bank realized with the implementation of the contract between the two clients, in accordance with the provisions of the legally valid pre-packaged reorganization plan in the amount of 442,089 thousand dinars). In the current reporting period 2020 the most significant effects are presented below.

Net negative effect of group and individual calculation of impairment provisions for loans, other receivables and off-balance sheet items in the period January – June 2020 amounted to RSD 204,370 thousand.

Net expense based on reduction of debt securities measured at fair value through other comprehensive income amounts to RSD 20,399 thousand in the second quarter of 2020.

The positive effect relates to the collection of written-off receivables in the amount of 159,880 thousand dinars. Of the total amount of collected written-off receivables, the bulk relates to the collection of loans to legal entities in the amount of 90,476 thousand dinars.

3.6. Other operating income

In the overall other operating income amounting to RSD 125,186 thousand the most considerable share of 95.33% represents income from operating activities (the same period last year 93.69%), which mostly relate to income realized from lease of property amounting to RSD 90,291 thousand. Other operating income is realized from reimbursement of expenses based on: court and utility costs, income from collected expenses of official mobile phones as per authorization of the employees, as well as income from the use of company vehicles for private purposes.

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 5,841 thousand are shown as income from dividends at the moment of their collection. Out of the total amount of collected dividends, RSD 4,800 thousand relate to the dividend received from VISA Inc. USA, while RSD 1,041 thousand relates to the 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 3,110,456 thousand are higher by RSD 932,849 thousand or 42.84% against the same period last year, due to the difference in booking of the bonuses to employees. In the structure of increase in the cost of salaries, salary allowance and other personnel expenses, the greatest share comes from other personnel expenses for annual bonus to employees in the amount of 895,576 thousand dinars.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 492,842 thousand are lower than in period January – June 2019 by RSD 4,115 thousand or 0.83%.

3.9. Other Income

In total other income in the amount of RSD 734,678 thousand the most significant share of 96.37% is that of the release of unused provisions for court disputes in the amount of RSD 708,028 thousand (reference note 3.19.). Other income has a share of 3.63%, and/or RSD 26,650 thousand, of which amount the most important item relates to income generated by interest from previous years, which was collected from corporate clients, entrepreneurs and retail customers in a total amount of RSD 6,422 thousand.

3. 0. Other Expenses

Other expenses are stated in the amount of RSD 2,714,297 thousand and are lower compared to the same period last year by RSD 956,708 thousand or 26.06%. Other expenses comprise:

a) operating expenses amounting to RSD 2,303,244 thousand,
b) cost of provisions for court proceedings liabilities amounting to RSD 251,477 thousand,
c) Other expenses amounting to RSD 159,576 thousand.

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

a) Operating expenses in the total amount of RSD 2,303,244 thousand, namely:

intangible costs totaling RSD 1,129,243 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 722,649 thousand. The structure of other expenses in the operating expenses item consists of the following: costs for managing and maintaining the ATM and POS network and other payment cards related equipment in the amount of RSD 181,388 thousand, property security expenses in the amount of RSD 118,564 thousand, costs of maintenance of IT equipment and software amounting to RSD 101,837 thousand, electricity costs of 68,011 thousand dinars, advertising and commercial propaganda costs in the country of RSD 63,815 thousand, costs of lawyer services amounting to RSD 51,142, costs of current maintenance of commercial space and other equipment in the amount of 49,034 thousand dinars, cost of cash in transit of 43,629 thousand dinars, cost of advertising sign fee of 37,207 thousand dinars, costs of commuting to and from work of RSD 36,582 thousand, costs of material in amount of RSD 153,108 thousand, tax costs amounting to RSD 77,563 thousand, contribution costs amounting to RSD 348,080 thousand and other expenses in amount of RSD 9,374 thousand.

Operating expenses of the current period are lower compared to the same period last year by RSD 200,404 thousand (mostly resulting from lower deposit insurance costs).

b) Costs of provisions for court liabilities in the amount of RSD 251,477 thousand relate to increase of provisions for Bank's court liabilities in 2020 (reference Note 3.19.), and

c) Other expenses in the amount of RSD 159,576 thousand.

Out of total amount of other expenses for period January – June 2020 in amount *of* RSD *159,576* thousand the largest part relates to costs of the insurance policies for receivables of the loan users in the amount of RSD 113,144 thousand. Other expenses on this basis in the same period of 2019 amounted to RSD 104,981 thousand.

Compared to the same period 2019, other expenses are lower by RSD 19,170 thousand principally as a result, on one side, of the reduced insurance costs of users of the sets of accounts product (decrease by RSD 32,016 thousand) and other expenses (decrease of 8,188 thousand dinars), on the other, increased expenses for lost court cases (increase of 9,052 thousand dinars), increased costs of insurance of the receivables from borrowers (increase by RSD 8,163 thousand), costs of the forced collection procedure (increase by RSD 3,192 thousand), and other expenses based on the refund of a part of the commission for acting as agent in insurance (increase by RSD 1,340 thousand).

3.11. Profit/loss from deferred tax

As of 30.06.2020 the Bank posted in the income statement a net profit from the effect of deferred tax in the amount of 141,487 thousand dinars (profit in the amount of 17,252 thousand dinars and loss in the amount of 158,749 thousand dinars).

BALANCE SHEET

Overall balance sheet total as of 30.06.2020 amounts to RSD 457,621,394 thousand, and represents an increase by RSD 25,240,951 thousand or 5.84% against 31.12.2019.

ASSETS

The dominant share in the total assets of the Bank is that of the loans and deposits to customers and banks of 45.47% (2019: 47.55%), securities with a share of 33.78% (2019: 32.03%), cash and funds with the central bank with a share of 16.71% (2019: 15.62%), other assets with a share of 1.15% (2019: 1.64%), property, plant and equipment with a share of 1.36% (2019: 1.49%) and investment in subsidiaries 0.79% (2019: 0.79%).

3.12. Cash and Funds with the Central Bank

Cash and balances with the central bank as at 30.06.2020 amount to RSD 76,487,156 thousand, and account for 16.71% of Bank's total assets (15.62% as at 31.12.2019). Compared to 31.12.2019, the position is higher by RSD 8,928,937 thousand.

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.

3.13. Receivables from derivatives

As of 30.06.2020 the posted fair value of 3,490 thousand dinars relates to the agreed SWAP arrangements with the NBS.

3.14. Securities

Investments in securities in the amount of RSD 154,573,244 thousand represent a percentage of share of 33.78% in relation to total assets (2019: 32.03%) and comprise of securities that are measured at fair value through profit and loss in the amount of RSD 10,420,892 thousand and securities measured at fair value through other comprehensive income in the amount of RSD 144,152,352 thousand.

Increase of investing in securities is realized compared to 2019 by RSD 16,103,693 thousand, or 11.63%. Realized growth of RSD 16,103,693 thousand is a result of increase of the securities that are measured at fair value through other comprehensive income by RSD 15,971,820 thousand, on one side, and an increase in securities that are measured at fair value through income statement by RSD 131,873 thousand, on the other.

The largest share in the securities structure in RSD is that of the Republic of Serbia bonds (98.28%), T-bills of the Republic of Serbia (1.13%) and investment units of KomBank Money Fund, Beograd (0.59%). Regarding securities in foreign currency, these are made up of the Republic of Serbia bonds (94.90%), bonds based on earlier FX savings (0.35%), and bonds of foreign banks and states (4.75%).

3.15. Loans and Receivables from Banks and Other Financial Organizations 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 30.06.2020, the loans and receivables from banks and other financial organizations amount to RSD 19,163,611 thousand with percentage of share of 4.19% of total assets (2019: 24,733,958 thousand) and are lower by RSD 5,570,347 thousand. The decrease against 31.12.2019 results mostly from the decrease in RSD denominated repurchase transactions by RSD 7,543,180 thousand, on the one hand, and increase in regular FX current accounts abroad of 3,980,841 thousand dinars, on another.

Loans and receivables from customers as at 30.06.2020 amount to RSD 188,897,608 thousand and with percentage of share of 41.28% of total assets (2019: 180,852,563 thousand) have dominant share in structure of assets. Total loans to customers are higher by 4.45% against 2019, and/or by RSD 8,045,045 thousand as the result of net increase in newly approved loans, on the one hand, and decrease in lending due to early and regular repayment, on another, as well as due to the net effect of the calculation and recognition of impairments.

In the period January – June 2020, in accordance with the NBS Decision on accounting write-off of balance-sheet assets of banks, the Bank did a permanent write-off by transferring the balance-sheet assets to off-balance-sheet records in the amount of RSD 852,291 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.

3.16. Investment in Subsidiaries

Investments in subsidiaries are RSD 3,433,697 thousand and account for 0.75% 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 30.06.2020 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	(2,047,191)
NET	**3,433,697**

As of 30.06.2020, net value of the share in the subsidiaries equals RSD 3,433,697 thousand, and has not changed against the amount shown as at 31.12.2019.

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

All of the above items account for 3.29% of total assets, of which the highest percentage relates to property, plant and equipment in the amount of 1.36%, other assets in the amount of 1.15% and investment property in the amount of 0.40%.

Investments in equity of banks, foreign and local legal entities as of 30.06.2020 amount to RSD 1,976,135 thousand measured at fair value through other comprehensive income. The largest amount refers to the share in the equity of foreign entities of RSD 1,885,636 thousand, and these are the shares in the companies MASTER Card International and VISA INC.

As of 30.06.2020 the deferred tax assets and deferred tax liabilities were netted, after which the deferred tax assets were posted in the balance-sheet assets in the amount of 1,039,709 thousand dinars.

Deferred tax assets as of 30.06.2020, if we observe the deferred taxes on gross principle, mostly consist of deferred tax assets based on tax losses carried forward, equal to RSD 1,198,592 thousand. Deferred tax assets based on tax losses carried forward were, upon the losses shown in 2015 and 2016, recognized in the Bank's business books based on assessed certainty that in the tax balance of forthcoming years there will be a sufficient taxable profit for which deferred tax assets could be used, and/or based on the expectation that there will be a possibility of using deferred tax assets according to the following time schedule:

Deferred tax assets based on
tax losses carried forward

In RSD thousand

Year	Increase (creation)	Decrease (use)	Balance
2017.	1,235,813	(368,667)	867,146
2018.	641,193	(630,339)	878,000
2019.	1,107,438	(726,088)	1,259,350
30.06.2020.	-	(60,758)	1,198,592
TOTAL	2,984,444	(1,785,852)	1,198,592

The term prescribed for the use of tax losses carried forward is 5 years, so the deadline for the use of the remaining tax losses carried forward is until 2021, inclusive.

An important item in deferred tax assets, if we observe the amounts before netting, in the amount of 330,553 thousand dinars, consist also of tax assets based on temporarily non-recognized expenses on the grounds of impaired property, as well as tax assets on the grounds of provision for court cases in the amount of 167,750 thousand dinars.

LIABILITIES

In period January – June 2020, in the structure of liabilities deposits and other financial liabilities to banks and customers still have a dominant share with total percentage of 79.61% (2019: 78.71%) in total liabilities. The share of capital in total liabilities stands at 16.07% (2019: 17.54%).

Other positions make for 4.32% of total liabilities which mainly refers to other liabilities with the percentage of 3.92%.

3.18. 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 359,771,391 thousand, which make for 78.62% of total liabilities (2019: 77.55%) and deposits and other financial liabilities towards banks, other financial organizations and the central bank in the amount of RSD 4,532,788 thousand with share of 0.99% (2019: 1.16%).

Total deposits to customers, banks, other financial organizations and central bank amounted to RSD 364,304,179 thousand and compared to 2019 they are higher by RSD 23,965,269 thousand: transaction deposits are higher by RSD 17,138,482 thousand, while other deposits recorded a growth amounting to RSD 6,825,787 thousand.

Net increase in transaction deposits was the result of an increase in dinar transaction deposits amounting to RSD 15,894,749 thousand, while transaction deposits in foreign currency recorded an increase of RSD 1,240,733 thousand compared to 31.12. 2019. In structure of transaction deposits still prevailing are the deposits in local currency with a share of 64.10%, while the remaining 35.90% relate to deposits in foreign currency.

In the case of other deposits, deposits in foreign currency are dominant with a share of 91.21% while dinar deposits have a share of 8.79%. Foreign currency savings increased by approximately EUR 1,60 million.

Borrowings

Borrowings, as part of the deposit and other liabilities towards banks and other customers' position, amounted to RSD 1,178,069 thousand with a percentage of shares in the total liabilities of 0.26% and they relate to received credit lines in foreign currency. The total position is lower in relation to 2019 by RSD 248,792 thousand mostly as a result of regular and early repayments of foreign credit lines in foreign currency, as follows:

- EIB in the amount of EUR 1,845 thousand, and
- Government of the Republic of Italy in the amount of EUR 193 thousand and
- EAR in the amount of EUR 76 thousand.

As of 30.06.2020, the most considerable share in the structure of received loans relates to obligation towards the:

- European Investment Bank (EIB) with percentage of share of 98.39%

Other credit lines have a share of 1.61% and they are composed of:

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

3.19. Provisions

Provisions in the amount of RSD 1,844,969 thousand consist of the provisions for:

- covering of potential liabilities (litigations) in the amount of RSD 1,118,336 thousand,
- long-term employee earnings in the amount of RSD 558,483 thousand, and
- provisions for losses on off-balance sheet assets in the amount of RSD 168,150 thousand.

In the observed period, compared to 2019, there was a decrease in the provisions amounting to RSD 483,161 thousand, as a result of net decrease of the provisions on the basis of court disputes by RSD 496,538 thousand, on one hand and impairment allowance for losses from off-balance-sheet assets in the amount of 22,828 thousand dinars and an increase in the provisions for long-term earnings of employees in the amount of 36,205 thousand dinars, on the other.

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 seven thousand nine hundred and twenty-nine at 30.06.2020, total provisions amount to RSD 1,118,336 thousand.

Compared to 31.12.2019 there was a change in the total level of provisions in the net amount of RSD 496,538 thousand. Out of this amount, the change relating to the net income from provisioning, i.e. decrease of the provisions for court obligations amounts to RSD 456,551 thousand recognized 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 39,987 thousand refers to the use of the provisions for making payments and release of provisions as per final judgments without any impact on the Profit and Loss Account. Decrease of the provisions is mainly the result of the judgment of the Supreme Court of Cassation, Prev 546/2019 of 13.02.2020 in favor of the Bank by which the revision of the plaintiff-legal entity was rejected as ungrounded, and the Bank's revision accepted.

3.20. Other liabilities

Other liabilities amount to RSD 17,936,010 thousand and compared to 2019 they are higher by RSD 4,074,780 thousand. The percentage of share of other liabilities in total liabilities is 3.92% (2019: 3.21%). The most important positions of other liabilities are: liabilities from the profit in the amount of RSD 14,603,098 thousand, liabilities from leasing in the amount of 824,025 thousand dinars, liabilities in the calculation in dinars in the amount of 468,627 thousand dinars, liabilities in the calculation in a foreign currency in the amount of 466,725 thousand dinars and liabilities for net salaries against expenses in the amount of 253,443 thousand dinars.

Increase in other liabilities of RSD 4,074,780 thousand mostly relates to the increases in liabilities from profit of 5,373,455, on the one hand, and decrease in the liabilities in the calculation in foreign currency in the amount of 1,564,187 thousand dinars, on another.
Increase in liabilities from profit was made on the basis of the decision of the Bank’s General Meeting of Shareholders 4690/3 of 28.04.2020 on distribution of profit from 2019 and retained earnings from previous years and most of this amount relates to the liabilities for dividends for ordinary shares, in the amount of 4,464,807 thousand dinars and preferred shares, in the amount of 13,073 thousand dinars. Payment of dividends will be made upon meeting the conditions specified by the Law on Banks and in accordance with the Dividend Policy.

3.21. 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 30.06.2020 the Bank's capital consists of:

In thousand RSD	2020	2019
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from the profit	22,147,207	18,565,207
Revaluation reserves	2,663,425	2,636,134
Profit/loss from changes in the value of debt and equity instruments	3,444,850	4,078,52
Actuarial gains	111,861	111,861
Reserves	28,367,343	25,391,725
Accumulated profit	2,366,019	1,470,139
Profit	2,768,324	8,955,759
Balance as at date	**73,536,236**	**75,852,173**

In accordance with the Decision of the Bank's General Meeting of Shareholders 4690/3 of 28 April 2020, profit from 2019 and previous years has been distributed in the form of dividend payment to ordinary and preferred shares in the amount of 4,477,880 thousand dinars (reference to the note 3.20.) and an increase in reserve from profit in the amount of 3,582,000 thousand dinars, which is also the increase in the item compared to 31.12.2019.

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 30 June 2020, calculated on the basis of the financial statements, equals 31,37% 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 30.06.2020 the pecuniary part of capital is above the prescribed level.

The structure of the share capital – ordinary shares as at 30.06.2020 is as follows:

Name of shareholder	% of share
Republic of Serbia	83.23
Jugobanka a.d.., Beograd, in bankruptcy	1.91
OTP BANKA SRBIJA (custody account)	2.28
Company Dunav osiguranje a.d., Beograd	1.73
BDD M&V INVESTMENTS AD BEOGRAD (aggregate account)	1.62
East capital (lux)-Balkan fund	0.81
GLOBAL MACRO ABSOLUTE RETURN A	0.79
GLOBAL MACRO CAPITAL OPPORTUNITIES	0.78
Stankom Co. d.o.o., Beograd	0.70
GLOBAL MACRO PORTFOLIO	0.50
FRONT MARK OPPORTUN.MASTER	0.41
DEKA INZENJERING	0.39
I.N. DRENIK NONWOVENS TRADING	0.35
ALLIANCEBERNS.NEXT 50E.M.(M)F.	0.32
Others	4.18
	100.00

On 26.02.2020, the Ministry of Finance of the Republic of Serbia announced that representatives of Nova Ljubljanska banka d.d. (NLB) and Minister of Finance of the Republic of Serbia have signed the Share Purchase Agreement involving the purchase/sale of 83.23% of ordinary shares of Komercijalna banka AD Beograd.

By signing this Agreement, the Bank has got a new strategic partner who will also assume management of the Bank once the transaction is over.

4. RELATIONS WITH SUBSIDIARIES

4. A. Balance as of 30.06.2020

RECEIVABLES

In thousand RSD

Subsidiaries	Advances and loans	Interest and fees	Other assets	Impairment provision	Net	Off-Balance	Total
1. Kom.banka AD Podgorica	712,155	882	1,365	8,131	706,271	405,637	1,111,908
2. Kom. Banka AD Banja Luka	1,258,781	24	863	14,524	1,245,144	1,998,792	3,243,936
3. Kombank INVEST	-	212	-	-	212	200	412
TOTAL:	**1,970,936**	**1,118**	**2,228**	**22,655**	**1,951,627**	**2,404,629**	**4,356,256**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interest and fees	Other liabilities	Total
1. Kom.banka AD Podgorica	601,361	-	3	601,364
2. Kom. Banka AD Banja Luka	284,272	-	-	284,272
3. Kombank INVEST	94	-	-	94
TOTAL:	**885,727**	**-**	**3**	**885,730**

INCOME AND EXPENSES for period 01.01. – 30.06.2020

In thousand RSD

Subsidiaries	Interest income	Fee and commission income and other income	Interest expenses	Fee and commissi on expenses	Net income / expenses
1. Kom.banka AD Podgorica	3,263	2,211	(623)	-	4,851
2. Kom. Banka AD Banja Luka	1,129	711	-	(68)	1,772
3. Kombank INVEST	-	1,063	-	-	1,063
TOTAL:	**4,392**	**3,985**	**(623)**	**(68)**	**7,686**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange gains in the amount of RSD 6,235 thousand.

4. B. Balance as of 31.12.2019

Balance as at 31.12. 2019

RECEIVABLES

In thousand RSD

Subsidiaries	Advances and loans	Interest and fees	Other assets	Impairment provision	Net o	Off-balance	Total
1. Kom.banka AD Podgorica	6,675	889	-	89	7,475	1,111,252	1,118,727
2. Kom. Banka AD Banja Luka	83,967	25	549	973	83,568	1,999,078	2,082,646
3. Kombank INVEST	-	253	-	1	252	200	452
TOTAL:	**90,642**	**1,167**	**549**	**1,063**	**91,295**	**3,110,530**	**3,201,825**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interest and fee	Other liabilities	Total
1. Kom.banka AD Podgorica	950,104	-	7	950,111
2. Kom. Banka AD Banja Luka	154,073	-	-	154,073
3. Kombank INVEST	25	-	-	25
TOTAL:	**1,104,202**	**-**	**7**	**1,104,209**

INCOME AND EXPENSES for period 01.01 – 31.06.2019

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	31	2,570	(384)	(99)	2,118
2. Kom. Banka AD Banja Luka	1,150	2,610	-	(197)	3,563
3. Kombank INVEST	-	884	-	-	884
TOTAL:	**1,181**	**6,064**	**(384)**	**(296)**	**6,565**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange gains in the amount of RSD 188 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 appetite framework and risk appetite statement, 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 risk appetite framework, 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 ratios – total, Tier 1 and Common Equity Tier 1, maintaining the NPL's participation in the total loans at the level below the defined limit, maintaining concentration risk indicator based on the exposures toward certain types of products below the regulatory prescribed level, 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 process, as well as external auditor’s requirements, during the second quarter of 2020 the Bank conducted appropriate changes of internal acts which regulate risk management.

Risk Management System

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

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

Risk Appetite Framework represents the formalization of the Bank's preference for taking risks through defining targets, tolerance (triggers) and limits on the basis of quantitative and qualitative analyses. The Risk Appetite Framework is integrated into the decision-making process in the Bank, as well as in the strategic planning process, i.e. in the preparation of the Strategy and Business Plan.

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 Appetite Framework, risk management strategy and policies 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 Appetite Framework, risk management strategy and policies and capital management strategy, 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 competent and responsible for analyzing and monitoring of the adequate implementation of the adopted Risk Appetite Framework, 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 and balance sheet 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

The Bank continuously applies IFRS 9 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 Republic of Serbia and National Bank of Serbia (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 income.

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).

[1] Solely Payments of Principal and Interest – SPPI

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, increase in credit risk since the moment of approval, 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.

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.

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.

With every change made to credit terms, for placements that are not part of a problematic (PL) client's status, or the status of bad (NPL) clients, the Bank calculates a 10% test with the aim of determining whether the modification made is highly significant or less significant.

In it's system, the Bank keeps a record of every made assets modification, regardless of whether the modification is considered to be highly or less significant, and regardless of whether the modification occured due to changes in market conditions for good (PL) clients or due to bad (NPL) clients' business issues.

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.

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

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.

Risk of Change in Value of Assets – assets delinquency

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. 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 Republic of Serbia and National Bank of Serbia and other exposures with a credit risk weight of 0, in accordance with the Decision on Capital Adequacy of banks, except for the exposure on the mandatory 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). In 2019, the Bank made ammendments to its Methodology for imapairment in the part referring to additional criteria for transfer to Stage 2, where it added a new quantitative criteria for credit risk deterioration from the date of approval to the date of impairment calculation.

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:

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

- 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. In order to include the forward looking component in the value of the calculated Beta factor, the Bank uses three different scenarios of macroeconomic variable movements (optimistic, realistic, pessimistic), after which comes the weighting of probabilities of expected realisations of the three mentioned scenarios, in order to arrive at the final Beta factor which contains all three scenarios (optimistic, realistic, pessimistic).

In the conditions of the COVID-19 virus pandemic and the need to include additional expert assessments – which is necessary due to the lack of reasonable and supported information – in the expected movement of the default rates, the Bank assumed that the effects of this pandemic will result in a combination of V and U curves' scenarios, which are characterized by smaller effects during 2020, to increase the negative effects during 2021, with the expected recovery in 2022.

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. Exceptionally, the update of PD for the second half of the year is done for the date June 30 with the data as of May 31, of the current year.

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, life insurance 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 December 31, 2019 and Jun 30, 2020 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).

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	30.06.2020.		31.12.2019.	
	Gross	Net	Gross	Net
I. Assets	**482,119,751**	**457,621,394**	**456,990,222**	**432,380,443**
Cash and cash funds held with the central bank	76,487,156	76,487,156	67,558,219	67,558,219
Loans and receivables due from banks and other financial institutions	19,402,848	19,163,611	24,952,308	24,733,958
Loans and receivables due from customers	200,303,765	188,897,608	192,872,896	180,852,563
Financial assets	154,577,383	154,576,734	138,470,153	138,469,551
Other assets	7,523,591	5,268,258	9,339,310	7,100,360
Non-montary assets	23,825,008	13,228,027	23,797,336	13,665,793
II. Off-Balance Sheet Items	**49,153,875**	**48,985,728**	**53,123,735**	**52,932,759**
Payment guarantees	4,000,039	3,975,429	4,210,006	4,185,429
Performance bonds	4,939,219	4,895,791	4,764,048	4,722,824
Irrevocable commitments	39,868,614	39,792,862	43,588,232	43,487,483
Other items	346,003	321,646	561,449	537,023
Total (I+II)	**531,273,626**	**506,607,122**	**510,113,958**	**485,313,202**

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

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30.06.2020.	Stage 1	Stage 2	Stage 3	Total	Impairment of Stage 1	Impairment of Stage 2	Impairment of Stage 3	Total impairment	Net
Housing Loans	42,158,280	577,315	899,528	43,635,123	54,951	19,310	423,330	497,591	43,137,532
Cash Loans	36,308,387	443,993	246,542	36,998,923	156,555	25,897	194,468	376,920	36,622,002
Agricultural Loans	10,777,329	178,865	245,631	11,201,826	123,244	8,796	105,742	237,782	10,964,044
Oher Loans	4,893,858	41,098	136,385	5,071,341	34,527	1,179	131,045	166,751	4,904,590
Micro business	8,500,404	1,118,049	539,373	10,157,825	142,084	31,514	292,440	466,038	9,691,787
Total Retail	**102,638,258**	**2,359,321**	**2,067,459**	**107,065,038**	**511,361**	**86,697**	**1,147,024**	**1,745,082**	**105,319,956**
Large corporate clients	28,809,258	4,891,167	6,258,700	39,959,125	87,339	9,261	3,770,582	3,867,182	36,091,943
Middle corporate clients	7,020,884	413,282	1,367,454	8,801,620	29,201	3,938	951,520	984,660	7,816,960
Small corporate clients	3,033,136	381,948	1,003,796	4,418,879	19,244	3,048	460,477	482,769	3,936,110
State owned clients	25,188,953	860,645	170,320	26,219,918	143,792	14,421	132,070	290,283	25,929,635
Other	9,760,016	614	4,078,555	13,839,185	204,895	24	3,831,261	4,036,180	9,803,005
Total Corporate	**73,812,247**	**6,547,655**	**12,878,825**	**93,238,727**	**484,472**	**30,692**	**9,145,911**	**9,661,075**	**83,577,652**
Total	**176,450,505**	**8,906,976**	**14,946,285**	**200,303,765**	**995,833**	**117,389**	**10,292,935**	**11,406,157**	**188,897,608**
Due from Banks	**19,189,014**	**-**	**213,834**	**19,402,848**	**25,403**	**-**	**213,834**	**239,237**	**19,163,611**

000 RSD

31.12.2019.	Stage 1	Stage 2	Stage 3	Total	Impairment of Stage 1	Impairment of Stage 2	Impairment of Stage 3	Total impairment	Net
Housing Loans	40,137,803	563,216	993,518	41,694,537	55,720	18,722	487,612	562,055	41,132,483
Cash Loans	34,456,268	369,714	250,163	35,076,145	161,194	19,467	196,477	377,138	34,699,007
Agricultural Loans	9,316,462	121,427	275,822	9,713,711	103,186	12,406	127,555	243,147	9,470,564
Oher Loans	4,793,469	44,820	159,663	4,997,952	36,250	1,080	153,449	190,779	4,807,173
Micro business	7,937,996	779,822	549,999	9,267,817	127,880	21,209	286,938	436,027	8,831,790
Total Retail	**96,641,998**	**1,878,999**	**2,229,165**	**100,750,162**	**484,230**	**72,884**	**1,252,031**	**1,809,145**	**98,941,017**
Large corporate clients	30,404,295	4,177,915	6,273,603	40,855,813	81,782	43,052	3,714,019	3,838,853	37,016,960
Middle corporate clients	7,749,403	178,584	1,753,845	9,681,832	31,326	2,997	1,335,764	1,370,087	8,311,745
Small corporate clients	3,571,658	95,640	1,149,243	4,816,541	20,410	781	656,700	677,891	4,138,650
State owned clients	21,847,484	413,490	170,672	22,431,646	110,876	5,464	132,088	248,428	22,183,218
Other	10,070,072	694	4,266,136	14,336,902	145,871	21	3,930,037	4,075,929	10,260,973
Total Corporate	**73,642,912**	**4,866,323**	**13,613,499**	**92,122,734**	**390,265**	**52,315**	**9,768,608**	**10,211,188**	**81,911,546**
Total	**170,284,910**	**6,745,322**	**15,842,664**	**192,872,896**	**874,494**	**125,199**	**11,020,639**	**12,020,333**	**180,852,563**
Due from Banks	**24,737,891**	**-**	**214,417**	**24,952,308**	**3,933**	**-**	**214,417**	**218,350**	**24,733,958**

The increase Level 2 exposures is the result of the analysis of clients whose activities are oriented towards industries that are particularly exposed to the effects of the potential crisis caused by the COVID-19 pandemic, which resulted, together with additional overlay, in a slight increase of impairment level.

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 category 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 stage 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 neizmirenja obligations for a period of life of the instrument (claims in stage 2). By appreciating specificity in dealings with clients, in particular establishes the migration for corporate clients, micro businesses, retail per product type. The level of credit risk impairment for the performing portfolio at the end of the second quarter of 2020 is largely due to changed macroeconomic expectations due to the COVID-19 pandemic, as well as expectations regarding to the pandemic effects on the corporate sector and private individuals in increase of credit risk with partial mitigation of the same, by set of Government of the Republic of Serbia and National Bank of Serbia support measures. As a result of all the above, the Bank made additional credit risks impairment adjustments, which is reflected in additional overlay.

5.1.2 Non-Performing Receivables, Stage 3

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30.06.2020.	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	**107,065,038**	**1,745,082**	**2,067,459**	**508,429**	**1,147,024**	**1,93%**	**1,781,401**
Housing Loans	43,635,123	497,591	899,528	190,551	423,330	2,06%	891,000
Cash Loans	36,998,923	376,920	246,542	15,495	194,468	0,67%	117,138
Agricultural Loans	11,201,826	237,782	245,631	48,015	105,742	2,19%	233,789
Oher Loans	5,071,341	166,751	136,385	-	131,045	2,69%	104
Micro business	10,157,825	466,038	539,373	254,369	292,440	5,31%	539,369
Corporate	**93,238,727**	**9,661,075**	**12,878,825**	**6,703,959**	**9,145,911**	**13,81%**	**11,393,545**
Agricultural Loans	3,764,842	12,671	8,864	-	4,880	0,24%	9,032
Manufacturing Industry	12.473.379	1,215,160	2,929,942	2,877,906	1,164,382	23,49%	2,929,393
Electricity	1,805,298	7,343	-	-	-	0,00%	-
Construction Loans	11.350.111	554,926	674,547	9,097	530,985	5,94%	674,986
Wholesale and Retal	21.002.675	465,094	765,505	526,161	389,653	3,64%	759,076
Services Loans	13,692,260	1,360,401	1,609,490	1,604,937	1,256,985	11,75%	1,608,344
Real Estate Loans	6.254.208	497,661	1,035,628	687,618	486,645	16,56%	1,033,481
Other	22,895,954	5,547,819	5,854,850	998,240	5,312,381	25,57%	4,379,233
Total	**200,303,765**	**11,406,157**	**14,946,285**	**7,212,389**	**10,292,935**	**7,46%**	**13,174,946**
Due from Banks	**19,402,848**	**239,237**	**213,834**	**-**	**213,834**	**1,10%**	**-**

000 RSD

31.12.2019.	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	**100,750,162**	**1,809,145**	**2,229,165**	**527,968**	**1,252,031**	**2,21%**	**1,903,216**
Housing Loans	41,694,537	562,054	993,518	209,731	487,612	2,38%	984,826
Cash Loans	35,076,145	377,138	250,163	11,929	196,477	0,71%	112,631
Agricultural Loans	9,713,711	243,147	275,822	44,886	127,555	2,84%	255,180
Oher Loans	4,997,953	190,779	159,663	-	153,449	3,19%	598
Micro business	9,267,816	436,027	549,999	261,422	286,938	5,93%	549,981
Corporate	**92,122,734**	**10,211,188**	**13,613,499**	**6,813,943**	**9,768,608**	**14,78%**	**12,126,609**
Agricultural Loans	4,169,867	64,802	60,217	-	56,463	1,44%	60,385
Manufacturing Industry	13,054,066	1,214,467	2,958,078	2,879,046	1,165,968	22,66%	2,958,078
Electricity	91,586	1,116	-	-	-	0,00%	-
Construction Loans	9,048,163	500,834	673,359	10,276	486,253	7,44%	673,708
Wholesale and Retal	23,100,789	567,209	845,424	607,050	455,214	3,66%	839,099
Services Loans	13,284,210	1,301,523	1,579,328	1,571,626	1,220,425	11,89%	1,578,182
Real Estate Loans	5,182,425	490,297	1,031,805	687,601	482,859	19,91%	1,029,573
Other	24,191,628	6,070,940	6,465,288	1,058,344	5,901,426	26,73%	4,987,584
Total	**192,872,896**	**12,020,333**	**15,842,664**	**7,341,911**	**11,020,639**	**8,21%**	**14,029,825**
Due from Banks	**24,952,308**	**218,350**	**214,417**	**-**	**214,417**	**0,86%**	**-**

5.1.3 Performing Receivables

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	30.06.2020.				31.12.2019.			
	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	42,661,586	74,010	42,735,596	42,452,239	40,600,372	100,647	40,701,019	40,522,852
Cash Loans	36,602,612	149,769	36,752,380	10,979,807	34,666,856	159,126	34,825,982	10,813,597
Agricultural Loans	10,909,192	47,003	10,956,195	9,829,899	9,415,826	22,063	9,437,889	8,032,833
Other	4,913,267	21,689	4,934,956	94,023	4,817,669	20,620	4,838,289	101,654
Micro Busines	9,213,262	405,190	9,618,452	11,468,923	8,341,708	376,110	8,717,818	8,706,933
Total Retail	**104,299,918**	**697,660**	**104,997,579**	**74,824,890**	**97,842,431**	**678,566**	**98,520,997**	**68,177,869**
Large corporate clients	29,583,722	4,116,702	33,700,425	34,491,993	31,140,683	3,441,528	34,582,211	34,670,639
Middle corporate clients	7,409,476	24,690	7,434,166	8,409,709	7,869,442	58,545	7,927,987	7,916,337
Small corporate clients	3,382,393	32,690	3,415,083	3,780,592	3,631,327	35,971	3,667,298	3,665,949
State owned clients	18,720,136	7,329,462	26,049,598	25,569,503	14,856,901	7,404,073	22,260,974	22,554,545
Other	4,830,263	4,930,367	9,760,630	7,639,464	4,862,214	5,208,551	10,070,765	7,645,774
Total Corporate	**63,925,990**	**16,433,912**	**80,359,902**	**79,891,262**	**62,360,567**	**16,148,668**	**78,509,235**	**76,453,244**
Total	**168,225,908**	**17,131,572**	**185,357,481**	**154,716,152**	**160,202,998**	**16,827,234**	**177,030,232**	**144,631,113**
Due from Banks	**19,189,014**	**-**	**19,189,014**	**-**	**24,737,891**	**-**	**24,737,891**	**-**

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, followed by the possible adjustment of the interest rate, with the aim of alignment of repayment schedule with the financial position of the clients,
- Supporting the clients in carrying out deinvestment or sale of non core assets in order to reduce their exposure to the Bank,
- 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 partial write-offs during the restructuring, while in the process of reviewing each individual request the Bank assesses all available options in order to maximize its collection.
- converting debt into equity – formally, this measure is available, but the Bank didn't use it in the previous period.

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 first quartet 2020, 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	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019
As at 30th	4.13	4.08	4.00	3.83	405%	410%
Average for the period	4.31	4.22	4.13	3.95	391%	432%
Maximum for the period	4.73	4.75	4.50	4.43	407%	495%
Minimum for the period	3.87	3.55	3.64	3.38	368%	391%

During second half into 2020, 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	30.06.2020.	31.12.2019.
GAP up to 1 month / Total assets	Max (10%)	1.34%	1.71%
Cumulative GAP up to 3 months / Total assets	Max (20%)	1.17%	1.83%

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	30.06.2020	31.12.2019
Relative GAP	Max 15%	1.43%	1.26%
Mismatch ratio	0.75 – 1.25	1.02	1.02

During the first halfinto 2020, 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:

	30.06.2020	31.12.2019
As at	3.90%	3.74%
Average for the year	4.32%	4.60%
Maximum for the year	5.21%	5.56%
Minimum for the year	3.43%	3.74%
Limit	**10%**	**10%**

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 June30st:

	30.06.2020	31.12.2019
Total currency risk balance	673,669	1,257,900
Currency risk ratio	1.01%	1.98%
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, monitoring of Key Risk Indicators and self-assessment. Key risk indicators are an early warning for signaling changes in the Bank's risk profile. They relate to a specific operational risk and show greater exposure in the occurrence of operational risk events. Their purpose is to help reduce losses and operational risks through proactive consideration of risk factors. 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.

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	30.06.2020.	(000) RSD 31.12.2019.
Tier 1 (T1) Capital	68,401,893	65,426,275
Common Equity Tier 1 (CET1) Capital	68,028,383	65,052,765
Additional Tier 1 (AT1) Capital	373,510	373,510
Tier 2 (T2) Capital	-	-
Deductible items	(1,648,074)	(1,779,291)
Capital	**66,753,819**	**63,646,984**
Credit risk-weighted assets	175,121,141	169,432,937
Operational risk exposure	34,167,575	32,768,254
Foreign currency risk exposure	3,493,557	4,238,173
Capital adequacy ratio	**31.37%**	**30.83%**
Share capital adequacy ratio	**31.37%**	**30.83%**
Basic share capital adequacy ratio	**31.20%**	**30.65%**

During the second quarter of 2020, all prescribed capital adequacy ratios were above regulatory limits.

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 Q2 2020, 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

Coronavirus COVID-19 Pandemic

After the outbreak of the coronavirus – COVID-19 pandemic (hereinafter: coronavirus) in the world and Europe, which first appeared in China in December 2019 and spread to Europe and the rest of the world from January 2020, and appeared in Serbia starting from 6 March 2020, the Bank undertook as a responsible legal entity all measures necessary to protect its employees, clients, creditors and business partners. Measures were taken to provide safe conditions for the Bank operation, in compliance with the recommendations of public health institutions of Serbia, as well as the measures of the Serbian Government, which enable a smooth performance of the Bank's business activities.

The course of the coronavirus disease is unpredictable and, therefore, it is highly challenging for the Bank to envisage its implications for economic and business performances, which as a consequence can entail requirement for the revision of estimates and assumptions. Also, uncertainty also implies a set of Government measures for the virus curbing and propagation, those that are already taken and that will be taken in the future. The measures can exert impact on the operation of the entire economy of Serbia and, consequently, on the operation of the Bank.

According to the preliminary estimates of the Bank's management, the current pandemic could in a concrete case influence on the Bank's liquidity, loan distribution, quality of the credit portfolio, impairment because of reduced ability of debtors to repay their liabilities, particularly in economic branches such as tourism, hotel and catering business, transport, oil industry, etc. The strongest impact on the Bank's liquidity will be exerted by moratorium on loan repayment and other receivables from legal entities and individuals.

In accordance with the Decision on Temporary Measures for Preservation of the Financial System Stability, made by the National Bank of Serbia on 17.03.2020, which Decision sets forth the measures and activities that the bank is obligated to apply in the conditions of the pandemic caused by the virus COVID 19, for the purpose of preserving the stability of the financial system in the Republic of Serbia, the Bank has offered to debtors a moratorium in the repayment of their obligations based on loans, guarantees, letters of credit, permitted overdrafts on current accounts, and other credit products in a period of minimum 90 days, starting from 31 March 2020.

Upon expiration of the terms from the loan repayment moratorium that related to the pause in repayment of clients' liabilities, the Bank continued with the activities on regular collection of loans. Regular agreed interest was accrued to the main debt with the extension of the repayment period for the number of monthly repayments covered by the moratorium. The Bank executed the activities that relate to the terms for the continuation of the calculation and collection of loans in accordance with the NBS Decision. This relates also to all other clients' liabilities from loan products to which the moratorium was previously applied.

Also, for the purpose of ensuring the RSD and FX liquidity the National Bank of Serbia launched, after the state of emergency was introduced, the auctions where swap and repo transactions are made with commercial banks. In swap auctions the NBS purchases and sells foreign exchange, while in repo auctions it purchases the government securities from banks. The Bank has as a secondary liquidity reserve a considerable amount of securities that are highly marketable in terms of the very high rate of return they bear. Accordingly, one can conclude that in spite of expected smaller liquidity of the Bank due to the introduced moratorium on loans, because of which the Bank has no reimbursement, a combination of the available liquid assets (assets in the accounts in the country and abroad, cash) and of primary and secondary reserves of liquidity guarantees that the Bank's liquidity will not be endangered if this matter is approached seriously.

All of the above listed activities as well as expected changes in operations resulted in the preparation of a revised strategy and business plan of the Bank for the period 2020-2022, which was adopted by the Bank's Assembly at its session held on July 17, 2020.

In accordance with the NBS decision on temporary measures for mitigating the consequences of the COVID-19 pandemic, with the aim of preserving the stability of the financial system, that came into effect on 28.07.2020, the Bank has again offered a repayment freeze (moratorium) to its clients for loans, credit cards and current account overdraft, three days after this NBS Decision became effective i.e. 31.07.2020 by publishing the offer on the Bank's website. By doing this the Bank is considered to have made this offer to all users.

If, within 10 days from the date this notification is posted on the Bank's website, the borrower does not reject the offer for the implementation of the moratorium, which is also possible to do later, the moratorium will apply to the liabilities that are due between 01.08.2020 and 30.09.2020, including the unsettled liabilities that were due in July 2020.

For the clients who reject the moratorium, due monthly liabilities will be collected in the amount from the existing repayment plan without charging the penalty interest.

As of the date of drafting these financial statements the Bank is meeting its liabilities as they fall due and, accordingly, continues to apply the going concern principle as the accounting base for the draw-up of financial statements.

Other

On 17.07.2020 an extraordinary Annual meeting of the Bank was held at which decisions were adopted on:

- appointment of the Bank's external auditor for 2020 and
- adoption of the revised Strategy and Business Plan for the Bank for the period 2020 – 2022.

Apart from the above events there was no other significant event after the date of the reporting period that would require disclosure in the Notes to the Financial Statements for 30 June 2020.

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 30 June 2020 and 31 December 2019 for certain main currencies are as follows:

Currencies	Official NBS exchange rate	
	2020.	2019.
USD	104.6329	104.9186
EUR	117.5760	117.5928
CHF	109.9252	108.4004

In Belgrade,

On 12.08.2020.

Persons responsible for preparation the financial statements

БЕОГРАД
4

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STATEMENT

In our opinion, quarterly financial statements for the period 01.01.2020. to 30.06.2020. 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
Executive Director for Finance and Accounting	Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД 4

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Activity code: 6419
Business Registers Agency: 10156/2005
Account number: 908-20501-70
SWIFT: KOBBCSBG
E-mail: posta@kombank.com

STATEMENT

Individual financial statements of Komercijalna banka AD Beograd for the period 01.01.2020. until 30.06.2020. 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
Executive Director for Finance and Accounting

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
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Miroslav Perić 399413

Digitally signed by Miroslav Perić 399413
Date: 2020.08.13 13:07:46 +02'00'