KOMERCIJALNA BANKA AD BEOGRAD

NLB GROUP

PUBLIC COMPANY'S ANNUAL CONSOLIDATED REPORT FOR 2021

CONTENTS

Completed by bank		
Registration number: 07737068	Activity code: 6 4 1 9	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

BALANCE SHEET - CONSOLIDATED
as at 31.12.2021

(in RSD thousand)

Group of accounts, account	I T E M	ADP code	Note number	Current year amount	Previous year amount - Closing balance	Previous year amount - Opening balance
1	2	3	4	5	6	7
00 (except 002), 010, 025, 05 (except 050, 052 and part of 059), 060, 07, 085, 196, 296 and parts of account 009, 019, 029, 069, 089, 199 and 299	**ASSETS** Cash and assets held with the central bank	0001	3k; 21	82.055.481	86.892.070	76.654.402
	Pledged financial assets	0002		-	-	-
125, 225	Receivables under derivatives	0003		-	-	-
120, 122, 124, 220, 222, 224, 129 and 229	Securities	0004	3j; 22	149.744.019	158.438.656	144.479.431
002, 01 (except 010 and part of 019), 020, 028, 050, 052, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, 493 and 593 as deductibles (SSKR-SS code 1 (without code 17), code 70 and parts of codes 71 and 74) and parts of account 009, 029, 059, 089, 199 and 299	Loans and receivables from banks and other financial organisations	0005	3j; 23	29.130.701	18.865.483	26.990.004
01 (except 010 and part of 019), 020, 028, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, 493 and 593 as deductibles (SSKR – SS code 17 and all other codes, except code 70 and parts of codes 71 and 74) and parts of account 029, 089, 199 and 299	Loans and receivables from clients	0006	3j; 24	209.044.942	219.433.627	208.234.158
123 and 223	Change in fair value of hedged items	0007		-	-	-
126 and 226	Receivables under hedging derivatives	0008		-	-	-
130, 131, 230, 231,part of 139 and part of 239	Investments in associated companies and joint ventures	0009	3j;25	1.479.000	-	-
132, 232, part of 139 and part of 239	Investments into subsidiaries	0010		-	-	-
33	Intangible investments	0011	3lj; 26	582.101	578.413	754.500
34	Property, plant and equipment	0012	3l; 27	8.755.740	6.743.199	7.254.391
35	Investment property	0013	3m;2.5.1; 28	2.610.531	2.718.683	3.170.619
034 and part of 039	Current tax assets	0014	20	18.985	19.661	6.786
37	Deferred tax assets	0015	20	512.015	2.484	1.076.255
36	Non-current assets held for sale and discontinued operations	0016	29	101.614	370.663	500.740
021, 022, 024, 027, 03 (except 034 and part of 039), 081, 082, 084, 087, 09, 134,192, 194, 195, 234, 292, 294, 295, 30, 38 and parts of account 029, 089, 139, 199, 239 and 299	Other assets	0017	3j; 30	5.433.093	6.806.000	7.602.611
	TOTAL ASSETS (from 0001 to 0017)	0018		**489.468.222**	**500.868.939**	**476.723.897**

Group of accounts, account	I T E M	ADP code	Note number	Current year amount	Previous year amount	
					Closing balance	Opening balance
1	2	3	4	5	6	7
411 and 511	**LIABILITIES** LIABILITIES **Liabilities under derivatives**	0401		-	-	-
40, 420, 421, 490, 50, 520, 521, 590, part of 193 and part of 293 as deductibles (SSKR – SS code 1 (without code 17), code 70 and parts of codes 71 and 74)	Deposits and other liabilities to banks, other financial organisations and central bank	0402	3o;31	2.134.916	8.096.190	8.318.606
40, 420, 421, 490, 50, 520, 521, 590, part of 193 and part of 293 as deductibles (SSKR – SS code 17 and all other codes, except code 70 and parts of codes 71 and 74)	Deposits and other financial liabilities to clients	0403	3o;32	403.286.418	406.192.067	370.987.710
417 and 517	Liabilities under hedging derivatives	0404		-	-	-
418 and 518	Change in fair value of hedged items	0405		-	-	-
410, 412, 415, 423, 496, 510, 512, 515, 523, 596, 127 and 227 as deductibles	Liabilities under securities	0406		-	-	-
424, 425, 482, 497, 524, 525, 582, 597, part of 193 and part of 293 as deductibles	Subordinated liabilities	0407		-	-	-
450, 451, 452, 453 and 454	Provisions	0408	3p; 33	4.251.729	2.696.346	2.483.410
46	Liabilities under assets held for sale and discontinued operations	0409		-	-	-
455	Current tax liabilities	0410	20	-	2.079	2.673
47	Deferred tax liabilities	0411	20	-	176.573	32.349
426, 427, 43, 44, 456, 457, 491, 492, 494, 495, 526, 527, 53, 591, 592, 594 and 595	Other liabilities	0412	3h;34	4.143.452	5.569.878	14.559.570
	TOTAL LIABILITIES (from 0401 to 0412)	0413		**413.816.515**	**422.733.133**	**396.384.318**
80	CAPITAL Share capital	0414	3t; 35	40.034.550	40.034.550	40.034.550
128	Own shares	0415		-	-	-
83	Profit	0416	2.5.1;35.1	9.579.290	5.385.674	10.949.899
84	Loss	0417	35.1		1.261.380	1.370.332
81 and 82 – credit balance	Reserves	0418	3t; 35.1	26.037.867	33.976.892	30.725.392
81 and 82 – debit balance	Unrealized losses	0419		-	-	-
	Non-controlling participation	0420	3t;35	-	70	70
	TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) ≥ 0	0421		**75.651.707**	**78.135.806**	**80.339.579**
	TOTAL CAPITAL SHORTFALL 0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) < 0	0422		**-**	**-**	**-**
	TOTAL LIABILITIES (0413 + 0421 - 0422)	0423		**489.468.222**	**500.868.939**	**476.723.897**

In Belgrade

On 03.03.2022

Legal representative of the bank

____

Completed by bank		
Registration number: 07737068	**Activity code: 6419**	**TIN: 100001931**
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, 14, Svetog Save		

INCOME STATEMENT - CONSOLIDATED

in the period from January 1st to December 31 st, 2021

(in RSD thousand)

Group of accounts, account	I T E M	ADP code				Note number	Current year	Previous year
1	2	3				4	5	6
70	Interest income	1	0	0	1	3c; 8	14.422.584	14.731.985
60	Interest expenses	1	0	0	2	3c; 8	1.257.548	1.443.962
	Net interest gains (1001-1002)	1	0	0	3		**13.165.036**	**13.288.023**
	Net interest losses (1002-1001)	1	0	0	4		**-**	**-**
71	Income from fees and commissions	1	0	0	5	3d; 9	8.140.671	7.205.485
61	Expenses on fees and commissions	1	0	0	6	3d; 9	2.063.067	1.938.963
	Net gains from fees and commissions (1005 - 1006)	1	0	0	7		**6.077.604**	**5.266.522**
	Net losses on fees and commissions (1006 - 1005)	1	0	0	8		**-**	**-**
774-674+776-676+777-677	Net gains from changes in fair value of financial instruments	1	0	0	9	3e; 10	6.772	98.046
674-774+676-776+677-777	Net losses from changes in fair value of financial instruments	1	0	1	0		-	-
727+728-627-628	Net gains from reclassification of financial instruments	1	0	1	1		-	-
627+628-727-728	Net losses on reclassification of financial instruments	1	0	1	2		-	-
720-620+721-621	Net gains from derecognition of the financial instruments measured at fair value	1	0	1	3	3f; 11	197.257	174.399
620-720+621-721	Net losses on derecognition of the financial instruments measured at fair value	1	0	1	4		-	-
775-675+770-670	Net gains from hedging	1	0	1	5		-	-
675-775+670-770	Net losses on hedging	1	0	1	6		-	-
78-68	Net exchange rate gains and gains from agreed currency clause	1	0	1	7	3b;12	1.688.689	17.980
68-78	Net exchange rate losses and losses on agreed currency clause	1	0	1	8		-	-
750-650+751-651+756-656+760-660+729-629	Net income from reduction in impairment of financial assets not measured at fair value through income statement	1	0	1	9		-	-
650-750+651-751+656-756+660-760+629-729	Net expenses on impairment of financial assets not measured at fair value through income statement	1	0	2	0	3j;13	475.358	1.264.236
726-626	Net gains from derecognition of the financial instruments measured at amortised cost	1	0	2	1		-	-
626-726	Net losses on derecognition of the financial instruments measured at amortised cost	1	0	2	2		-	-
723-623	Net gains from derecognition of investments in associated companies and joint ventures	1	0	2	3		-	-
623-723	Net losses on derecognition of investments in associated companies and joint ventures	1	0	2	4	14.	1.954.463	-
74, 766	Other operating income	1	0	2	5	3g; 15	230.145	227.097

Group of accounts, account	I T E M	ADP code				Note number	Current year	Previous year
1	2	3				4	5	6
	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	1	0	2	6		**18.935.682**	**17.807.831**
	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	1	0	2	7		**-**	**-**
63, 655 - 755	Salaries, salary compensations and other personal expenses	1	0	2	8	3r; 16	5.685.180	6.491.790
642	Depreciation costs	1	0	2	9	3l; 3lj;3h; 17	1.085.357	1.136.168
752, 753, 761, 762, 767, 768, 773	Other income	1	0	3	0	18	649.147	951.937
64 (осим 642), 652, 653, 661, 662, 667, 668, 673	Other expenses	1	0	3	1	19	10.231.132	7.247.683
	PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1	0	3	2		**2.583.160**	**3.884.127**
	LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) < 0	1	0	3	3		**-**	**-**
850	Profit tax	1	0	3	4	3i; 20	4.676	7.309
861	Gains from deferred taxes	1	0	3	5	3i; 20	373.225	122.101
860	Losses on deferred taxes	1	0	3	6	3i; 20	174.116	1.391.735
	PROFIT AFTER TAX (1032-1033-1034+1035-1036) ≥ 0	1	0	3	7		**2.777.593**	**2.607.184**
	LOSSES AFTER TAX (1032-1033-1034+1035-1036) < 0	1	0	3	8		**-**	**-**
769-669	Net profit from discontinued operations	1	0	3	9		-	-
669-769	Net losses on discontinued operations	1	0	4	0		-	-
	RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1	0	4	1		**2.777.593**	**2.607.184**
	RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1	0	4	2		**-**	**-**
	Profit belonging to a parent entity	1	0	4	3		**2.777.593**	**2.607.183**
	Profit belonging to non-controlling owners	1	0	4	4		**-**	**1**
	Losses belonging to a parent entity	1	0	4	5		**-**	**-**
	Losses belonging to non-controlling owners	1	0	4	6		**-**	**-**
	EARNINGS PER SHARE							
	Basic earnings per share (in dinars, without paras)	1	0	4	7	3u; 35.2	216	150
	Diluted earnings per share (in dinars, without paras)	1	0	4	8	3u; 35.2	216	150

In Belgrade
On 03.03.2022

Legal representative of the bank

____

Completed by bank		
Registration number: 07737068	Activity code: 6419	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

in the period from January 1st to December 31st, 2021

(in RSD thousand)

Group of accounts, account	ITEM	ADP code	Note No	Current year	Previous year
1	2	3	4	5	6
	PROFIT FOR THE PERIOD	2001		2.777.593	2.607.184
	LOSS FOR THE PERIOD	2002		-	-
820	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	20	-	7.894
820	Decrease in revaluation reserves based on intangible assets and fixed assets	2004	20	114.074	-
822	Actuarial gains	2005	33	-	4.336
822	Actuarial losses	2006	33	151.336	-
821	Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	20	146.991	118.902
821	Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	20	-	863
825	Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009		-	-
825	Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010		-	-
825	Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011		-	-
825	Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012		-	-
825	Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013		-	-
825	Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014		-	-
823	**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	35	517.885	-
823	Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	35	3.919.071	488.647
824	Gains from cash flow hedges	2017		-	-
824	Losses from cash flow hedges	2018		-	-
826	Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019		-	-
826	Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	35	1.619.188	282
826	Unrealised gains from hedge of net investments in foreign operations	2021		-	-
826	Unrealised losses from hedge of net investments in foreign operations	2022		-	-
826	Unrealised gains from other hedging instruments	2023		-	-
826	Unrealised losses from other hedging instruments	2024		-	-
826	Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2025		-	-
826	Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2026		-	-
82	Tax gains relating to other comprehensive income for the period	2027	35	594.006	69.996

Group of accounts, account	ITEM	ADP code				Note No	Current year	Previous year
1	2	3				4	5	6
82	Tax losses relating to other comprehensive income for the period	2	0	2	8	35	72.738	18.440
	Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 - 2028) ≥ 0	2	0	2	9		**-**	**-**
	Total negative other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 - 2028) < 0	2	0	3	0		**4.617.525**	**307.104**
	TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2	0	3	1		**-**	**2.300.080**
	TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2	0	3	2		**1.839.932**	**-**
	Total positive comprehensive income for the period attributable to the parent entity	2	0	3	3		**-**	**2.300.079**
	Total positive comprehensive income for the period attributable to non-controlling owners	2	0	3	4		**-**	1
	Total negative comprehensive income for the period attributable to the parent entity	2	0	3	5		**1.839.932**	-
	Total negative comprehensive income for the period attributable to non-controlling owners	2	0	3	6		-	-

In Belgrade,

Date 03.03.2022

Legal representative of the bank

____

Completed by bank		
Registration number: 07737068	Activity code: 6419	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

CASH FLOW STATEMENT - CONSOLIDATED
in the period from 01.01 to 31.12.2021

(in RSD thousand)

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
A. I.	**CASH FLOW FROM OPERATING ACTIVITIES** **Cash inflow from operating activities (from 3002 to 3005)**	3001	**25.446.478**	**21.581.613**
1.	Interest	3002	14.889.292	13.604.447
2.	Fees	3003	7.752.753	7.284.436
3.	Other operating income	3004	2.788.538	683.338
4.	Dividends and profit sharing	3005	15.895	9.392
II.	**Cash outflow from operating activities (from 3007 to 3011)**	3006	**15.868.038**	**14.013.944**
5.	Interest	3007	911.886	1.265.765
6.	Fees	3008	1.911.461	1.978.998
7.	Gross salaries, salary compensations and other personal expenses	3009	5.017.594	5.122.271
8.	Taxes, contributions and other duties charged to income	3010	995.213	978.253
9.	Other operating expenses	3011	7.031.884	4.668.657
III.	**Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	**9.578.440**	**7.567.669**
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	**19.456.510**	**36.835.517**
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	9.561.951	-
11.	Decrease in receivables under securities and other financial assets not intended for investment	3016	9.894.384	2.178.771
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	175	34.656.746
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	**6.742.129**	**3.650.257**
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	-	3.650.257
17.	Increase in receivables under securities and other financial assets not intended for investment	3023	-	-
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	6.742.129	-
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	**22.292.821**	**40.752.929**
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3029	**-**	**-**
22.	Profit tax paid	3030	6.674	20.776
23.	Dividends paid	3031	94.154	14.239.507
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	**22.191.993**	**26.492.646**
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	**-**	**-**

ITEM		ADP code	Amount	
			Current year	Previous year
1		2	3	4
B. **I.**	**CASH FLOW FROM INVESTING ACTIVITIES** **Cash inflow from investing activities (from 3035 to 3039)**	3034	**38.253.759**	**21.086.961**
1.	Investment in investment securities	3035	34.836.545	21.077.661
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	2.586.872	-
3.	Sale of intangible investments, property, plant and equipment	3037	504.510	2.629
4.	Sale of investment property	3038	325.479	6.671
5.	Other inflow from investing activities	3039	353	-
II.	**Cash outflow from investing activities (from 3041 to 3045)**	3040	**42.979.990**	**39.249.471**
6.	Investment into investment securities	3041	39.769.940	39.063.178
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	71	-
8.	Purchase of intangible investments, property, plant and equipment	3043	3.209.979	186.293
9.	Purchase of investment property	3044	-	-
10.	Other outflow from investing activities	3045	-	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	**-**	**-**
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	**4.726.231**	**18.162.510**
C. **I.**	**CASH FLOW FROM FINANCING ACTIVITIES** **Cash inflow from financing activities (from 3049 to 3054)**	3048	**329.812.712**	**333.140.560**
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	329.732.785	333.140.560
4.	Issuance of securities	3052	-	-
5.	Sale of own shares	3053	-	-
6.	Other inflow from financing activities	3054	79.927	-
II.	**Cash outflow from financing activities (from 3056 to 3060)**	3055	**342.723.842**	**331.904.157**
7.	Purchase of own shares	3056	6.824.805	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	335.284.099	331.360.621
10.	Issuance of securities	3059	-	-
11.	Other outflow from financing activities	3060	614.938	543.536
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	**-**	**1.236.403**
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	**12.911.130**	**-**
D.	**TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)**	3063	**412.969.459**	**412.644.651**
E.	**TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	**408.414.827**	**403.078.112**
F.	**NET INCREASE IN CASH (3063-3064)**	3065	**4.554.632**	**9.566.539**
G.	**NET DECREASE IN CASH (3064-3063)**	3066	**-**	**-**
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**	3067	**54.055.112**	**44.519.620**
I.	**EXCHANGE RATE GAINS**	3068	**2.585.309**	**1.542.046**
J.	**EXCHANGE RATE LOSSES**	3069	**557.017**	**1.573.093**
K.	**CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)**	3070	**60.638.036**	**54.055.112**

In Belgrade
On 03.03.2022.

Legal representative of the bank

____

Completed by bank		
Registration number: 07737068	Activity code: 6419	TIN: 100001931
Name: KOMERCIJALNA BANKA AD BEOGRAD		
Head office: Beograd, Svetog Save 14		

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED

in the period from 01.01. to 31.12.2021

(in RSD thousand)

No	DESCRIPTION	ADP	Share capital and other equity (accounts 800,801,803,809)	ADP	Own shares (account 128)	ADP	Premium on issue of shares (account 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82 credit balance)	ADP	Revaluation reserves (group of accounts 82 debit balance)	ADP	Profit (group of accounts 83)	ADP	Loss (accounts 840, 841, 842)	ADP	Non-controlling participation	ADP	Total comumns 2-3+4+5+6-7+8-9+10) ≥ 0	ADP	Total (columns 2-3+4+5+6-7+8-9+10) < 0
	1		2		3		4		5		6		7		8		9		10		11		12
1	**Opening balance as at 1 January of the previous year**	4001	17.191.466	4033	-	4065	22.843.084	4097	21.849.594	4129	8.876.046	4147	248	4165	9.981.896	4203	1.370.332	4241	70	4285	79.371.576	4291	-
2	Effects of the first implementation of new IFRS - increase	4002	-	4034	-	4066	-	4098	-	4130	-	4148	-	4166	-	4204	-	4242	-	x	x	x	x
3	Effects of the first implementation of new IFRS – decrease	4003	-	4035	-	4067	-	4099	-	4131	-	4149	-	4167	-	4205	-	4243	-	x	x	x	x
4	Changes in accounting policies and correction of prior period error – increase	4004	-	4036	-	4068	-	4100	-	4132	-	4150	-	4168	1.056.880	4206	-	4244	-	x	x	x	x
5	Changes in accounting policies and correction of prior period error – decrease	4005	-	4037	-	4069	-	4101	-	4133	-	4151	-	4169	88.877	4207	-	4245	-	x	x	x	x
6	**The adjusted opening balance as at 1 January of the previous year (No. 1+2-3+4-5)**	4006	17.191.466	4038	-	4070	22.843.084	4102	21.849.594	4134	8.876.046	4152	248	4170	10.949.899	4208	1.370.332	4246	70	4286	80.339.579	4292	-
7	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4135	13	4153	248	x	x	x	x	4247	-	x	x	x	x
8	Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4136	331.981	4154	-	x	x	x	x	4248	-	x	x	x	x
9	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4171	2.607.183	x	x	4249	1	x	x	x	x
10	Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4209	-	4250	-	x	x	x	x
11	Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4172	-	4210	-	4251	-	x	x	x	x
12	Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4173	-	4211	-	4252	-	x	x	x	x
13	Transactions with owners recognized directly in equity – increase	4007	-	4039	-	4071	-	4103	-	x	x	x	x	4174	-	4212	-	4253	-	x	x	x	x
14	Transactions with owners recognized directly in equity – decrease	4008	-	4040	-	4072	-	4104	-	x	x	x	x	4175	-	4213	-	4254	-	x	x	x	x
15	Distribution of profit – increase	4009	-	4041	-	4073	-	4105	3.583.264	x	x	x	x	4176	-	4214	-	4255	-	x	x	x	x
16	Distribution of profit and/or coverage of losses – decrease	4010	-	4042	-	4074	-	4106	-	x	x	x	x	4177	3.692.069	4215	108.805	4256	-	x	x	x	x
17	Dividend payments	4011	-	4043	-	4075	-	4107	-	x	x	x	x	4178	4.477.879	4216	-	4257	-	x	x	x	x
18	Other – increase	4012	-	4044	-	4076	-	4108	-	x	x	x	x	4179	24.580	4217	-	4258	-	x	x	x	x
19	Other – decrease	4013	-	4045	-	4077	-	4109	44	x	x	x	x	4180	26.040	4218	147	4259	1	x	x	x	x
20	**Total transactions with owners (No. 13-14+15-16-17+18-19) ≥ 0**	4014	-	4046	-	4078	-	4110	3.583.220	x	x	x	x	4181	-	4219	-	4260	-	x	x	x	x
21	**Total transactions with owners (No. 13-14+15-16-17+18-19) < 0**	4015	-	4047	-	4079	-	4111	-	x	x	x	x	4182	8.171.408	4220	108.952	4261	1	x	x	x	x
22	**Balance as at 31 December of the previous year (No. 6+7-8+9-10+11-12+20-21 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 6+8-7)**	4016	17.191.466	4048	-	4080	22.843.084	4112	25.432.814	4137	8.544.078	4155	-	4183	5.385.674	4221	1.261.380	4262	70	4287	78.135.806	4293	-

No	DESCRIPTION	ADP	Share capital and other equity (accounts 800,801,803,809)	ADP	Own shares (account 128)	ADP	Premium on issue of shares (account 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82 credit balance)	ADP	Revaluation reserves (group of accounts 82 debit balance)	ADP	Profit (group of accounts 83)	ADP	Loss (accounts 840, 841, 842)	ADP	Non-controlling participation	ADP	Total comumns 2-3+4+5+6-7+8-9+10) ≥ 0	ADP	Total (columns 2-3+4+5+6-7+8-9+10) < 0
	1		2		3		4		5		6		7		8		9		10		11		12
23	**Opening balance as at 1 January of the current year**	4017	17.191.466	4049	-	4081	22.843.084	4113	25.432.814	4138	8.544.078	4156	-	4184	5.385.674	4222	1.261.380	4263	70	4288	78.135.806	4294	-
24	Effects of the first implementation of new IFRS - increase	4018	-	4050	-	4082	-	4114	-	4139	-	4157	-	4185	-	4223	-	4264	-	x	x	x	x
25	Effects of the first implementation of new IFRS – decrease	4019	-	4051	-	4083	-	4115	-	4140	-	4158	-	4186	-	4224	-	4265	-	x	x	x	x
26	Changes in accounting policies and correction of prior period error – increase	4020	-	4052	-	4084	-	4116	-	4141	-	4159	-	4187	-	4225	-	4266	-	x	x	x	x
27	Changes in accounting policies and correction of prior period error – decrease	4021	-	4053	-	4085	-	4117	-	4142	-	4160	-	4188	-	4226	-	4267	-	x	x	x	x
28	**Adjusted opening balance as at 1 January of the current year (No. 23+24-25+26-27)**	4022	17.191.466	4054	-	4086	22.843.084	4118	25.432.814	4143	8.544.078	4161	-	4189	5.385.674	4227	1.261.380	4268	70	4289	78.135.806	4295	-
29	Total positive other comprehensive income for the period	x	x	x	x	x	x	x	x	4144	84.129	4162	-	x	x	x	x	4269	-	x	x	x	x
30	Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4145	4.738.089	4163	322	x	x	x	x	4270	-	x	x	x	x
31	Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4190	2.777.593	x	x	4271	-	x	x	x	x
32	Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4228	-	4272	-	x	x	x	x
33	Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4191	2.869.029	4229	-	4273	-	x	x	x	x
34	Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4192	-	4230	-	4274	-	x	x	x	x
35	Transactions with owners recognized directly in equity – increase	4023	-	4055	-	4087	-	4119	-	x	x	x	x	4193	-	4231	-	4275	-	x	x	x	x
36	Transactions with owners recognized directly in equity – decrease	4024	-	4056	-	4088	-	4120	-	x	x	x	x	4194	-	4232	-	4276	-	x	x	x	x
37	Distribution of profit – increase	4025	-	4057	-	4089	-	4121	4.060	x	x	x	x	4195	-	4233	-	4277	-	x	x	x	x
38	Distribution of profit and/or coverage of losses – decrease	4026	-	4058	-	4090	-	4122	-	x	x	x	x	4196	63.705	4234	59.645	4278	-	x	x	x	x
39	Dividend payments	4027	-	4059	-	4091	-	4123	-	x	x	x	x	4197	-	4235	-	4279	-	x	x	x	x
40	Other – increase	4028	-	4060	-	4092	-	4124	-	x	x	x	x	4198	623.402	4236	588.441	4280	-	x	x	x	x
41	Other – decrease	4029	-	4061	-	4093	-	4125	3.288.803	x	x	x	x	4199	2.012.703	4237	1.790.176	4281	70	x	x	x	x
42	**Total transactions with owners (No. 35-36+37-38-39+40+41) ≥ 0**	4030	-	4062	-	4094	-	4126	-	x	x	x	x	4200	-	4238	-	4282	-	x	x	x	x
43	**Total transactions with owners (No. 35-36+37-38-39+40+41) < 0**	4031	-	4063	-	4095	-	4127	3.284.743	x	x	x	x	4201	1.453.006	4239	1.261.380	4283	70	x	x	x	x
44	**Balance as at 31 December of the current year (No. 28+29-30+31-32+33-34+42-43 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 28+30-29)**	4032	17.191.466	4064	-	4096	22.843.084	4128	22.148.071	4146	3.890.118	4164	322	4202	9.579.290	4240	-	4284	-	4290	75.651.707	4296	-

In Belgrade
Date 03.03.2022

Legal representative of the bank

____

KOMERCIJALNA BANKA AD BEOGRAD

NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2021

Belgrade, March 2022

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

Komercijalna banka a.d. Beograd (hereinafter "The Parent bank") was established on December 1, 1970, and was transformed into a joint stock company on May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered in the Business Registers Agency on April 14, 2006. The Bank was granted a banking license from the National Bank of Yugoslavia on July 3, 1991. The tax identification number of the Parent bank is 100001931.

Control over the Parent bank has the following entity:
NLB d.d. Ljubljana, 88.28%

By signing the Agreement on the transfer of shares on December 30, 2020 between the Republic of Serbia and NLB d.d. Ljubljana the process of selling Komercijalna banka a.d. Beograd is completed. The subject of the agreement was 83.23% of Komercijalna banka ordinary shares, which made NLB d.d. Ljubljana the owner of shares which have been held by the Republic of Serbia and the largest individual owner of the Parent bank with the right to manage.

At the end of 2021, the parent bank has one subsidiary and one associate with ownership participation:
- 100.00% - UCITS Fund Management Company KomBank INVEST a.d., Belgrade, Serbia and
- 23.9686% - NLB banka a.d. Podgorica, Montenegro.

Consolidated financial statements and notes to the consolidated financial statements are the data of the Parent Bank, Komercijalna Banka ad, Podgorica, Komercijalna Banka ad, Banja Luka and UCITS Fund Management Company KomBank INVEST a.d., Belgrade Belgrade and NLB Bank AD Podgorica (hereinafter "Group").

Komercijalna banka ad Podgorica was founded in November 2002 as an affiliate of Komercijalna banka ad Belgrade and registered in the central registry of the Commercial Court in Podgorica on March 6, 2003. The registration number of Komercijalna banka ad, Podgorica is 02373262. In July 2018 Komercijalna banka a.d. Budva has changed the name and registered headquarter from Komercijalna banka ad, Budva to Komercijalna banka ad, Podgorica with headquarters in Podgorica.

On October 13, 2021 , at the headquarters of NLB Bank in Podgorica, the Merger Agreement was signed via the merger of Komercijalna banka a.d. Podgorica to the NLB Banka a.d. Podgorica. The signing of this agreement was preceded by the adoption of the proposal of the Agreement with the corresponding decisions made at the extraordinary general meetings of shareholders of both banks held on October 12, 2021.

The last day when Komercijalna banka a.d. Podgorica operated is to be considered November 12, 2021, when the merger of Komercijalna banka a.d. Podgorica to the NLB Banka a.d. Podgorica, was carried out. As of December 31, 2021, the parent bank had 23.97% of shares NLB banka a.d. Podgorica

Komercijalna banka AD, Banja Luka was established in September 2006 and on September 15, 2006 it was registered in the court register by the Decision of the Basic Court in Banja Luka. The registration number of Komercijalna banka ad, Banja Luka is 11009778.

Sales&Purchase Agreement signed on October 27, 2021 between Banka Poštanska štedionica and Komercijalna banka a.d., Beograd on sale of Komercijalna banka a.d. Banja Luka. Thus, sale&purchase of 100% of shares Komercijalna banka a.d. Banja Luka was realized on the Banja Luka Stock Exchange after obtaining the consent of regulatory bodies: the Banking Agency of the Republic of Srpska, the National Bank of Serbia and the Commission for Protection of Competition of the Republic of Serbia.

Legal status change of Komercijalna banka a.d. Podgorica and the sale of Komercijalna banka a.d. Banja Luka caused change in composition of the Group both in terms of members (the sale of Komercijalna banka ad Banja Luka) and in terms of the control level (legal status change - merger of Komercijalna banka ad Podgorica); (in respect of this issue, the Parent Bank at the end of 2021 has significant influence in the associate).

Investment fund Management Company KomBank INVEST ad Belgrade was established in December 2007 and registered on February 5, 2008. The Company's registration number is 20379758. In accordance with the Law on Open-End Investment Funds with a public offering, as of November 4, 2020 the business name has changed to the UCITS Fund Management Company KomBank INVEST a.d., Belgrade.

The Group's activities include credit, deposit and guarantee operations and payment transactions in the country and abroad in accordance with the Banking Law, as well as investment fund management activities. The Group is obliged to operate according to the principles of liquidity, safety and profitability.

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP (continued)

On December 31, 2021, the Group consists of: the head office and the headquarters of the Home Bank in Belgrade, at St. Sava Street no. 14; the head office of the UCITS Fund Management Company KomBank INVEST a.d., Belgrade, at Kralja Petra Street no. 19; the head office of the NLB bank a.d. Podgorica at Bulevar Stanka Dragojevića Street no. 46 Podgorica; 6 business centres, 3 sectors that work with small and medium enterprises 20 branches and 192 sub-branches and one teller-window in the territory of Serbia and Montenegro (2020:6 business centres, 3 divisions for SMEs operations, 20 branches and 213 sub-branches).

As at December 31, 2021 the Group had 2,745 employees, and on December 31, 2020 had 2,985 employees.

2. BASIS FOR PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis for preparation and presentation of consolidated financial statements

The Group's consolidated financial statements for year ended December 31, 2021 were compiled in accordance with International Financial Reporting Standards (IFRS).

The attached consolidated financial statements are presented in the format prescribed by the Decision on the Forms and Contents of Positions in the Forms of the Financial Statements for Banks ("Official Gazette of the Republic of Serbia" No. 93/2020).

Consolidated financial statements have been prepared in accordance with the historical cost principle, unless otherwise stated in the accounting policies set out below.

In preparing these financial statements, the Group applied the accounting policies set out in Note 3.

During 2021, the Group members kept their accounts and compiled individual financial statements in accordance with local legal regulations, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as regulations of competent central banks and regulatory body. The standalone financial statements have been audited by external auditors, in accordance with local regulations.

For the purpose of preparing consolidated financial statements, individual financial statements of subsidiary banks have been adapted to the presentation of financial statements based on the accounting regulations of the Republic of Serbia.

The consolidated financial statements of the Group are expressed in thousands of RSD. Dinar represents the official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts are quoted in RSD and rounded up in thousands.

Functional currencies of the EUR from the financial statements of Komercijalna banka ad., Podgorica and BAM from the financial statements of Komercijalna banka ad, Banja Luka are translated into the reporting currency, i.e. the functional currency of the Parent Bank - dinar (RSD) on the basis of the official published rates in the Republic of Serbia.

2. BASIS FOR PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2. Changes and additions to IFRSs whose implementation are mandatory in the current year

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2021:

- **IFRS 16: Leases and IFRIC 23: Uncertainty over Income Tax Treatment**

Pursuant to the Decision on Determining the Translation of International Financial Reporting Standards (Official Gazette of the RS, Nos. 123/2020 and 125/2020) a translation of all IFRS, including IFRS 16 Leases, was published. furthermore, the basic texts of IAS or IFRS are applied starting from the financial statements prepared as of December 31, 2021, while the earlier application to the financial statements prepared as of December 31, 2020 is possible with disclosure. relevant information in the Notes to the financial statements. Therefore, under the Decision translation of the new IFRS 16 - Leases and IFRIC 23 - Uncertainty over Income Tax Treatment was published, while other standards are disclosed under repeated translation published in previous decision which is repealed except in the case of its application when preparing financial statements on 31 December 2020, with mandatory application of all standards starting from the financial statements as of December 31, 2021.

2.3. Standards that are issued but not yet effective and were not adopted in the past

- **IAS 12 Income Taxes: Amendments Related to Deferred Taxes**

On May 7, 2021, the IASB issued “Deferred Tax on Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)” clarifying how entities compute deferred tax on transactions such as leasing and decommissioning obligations. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IFRS 17 Insurance Contracts (Amendments)**

On June 25, 2020, the IASB issued "Amendments to IFRS 17" in order to overcome the implementation challenges identified after the publication of IFRS 17 "Insurance Contracts" in 2017. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IAS 1 and IFRS 2 - Changes in Disclosure of Accounting Policies**

On February 12, 2021, the IASB issued “Accounting Disclosures (Amendments to IAS 1 and the IFRS Statement of Practice 2)” with amendments aimed at assisting preparers in deciding which accounting policies to disclose in their financial statements. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors - Changes in Disclosure of Accounting Policies**

The standard requires compliance with any specific IFRSs that apply to a transaction, event or condition, and provides guidance on the development of accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally considered retrospectively, while changes in accounting estimates are generally calculated on a prospective basis. On February 12, 2021, the IASB issued a “Definition of Accounting Estimates (Amendments to IAS 8)” to help entities differentiate between accounting policies and accounting estimates. The changes are effective for annual periods beginning on or after January 1, 2023.

- **Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale of Assets between Investors and Subsidiaries**

The amendments indicate a known discrepancy between the requirements in IFRS 10 and those in IAS 28, related to the sale or transfer of assets between an investor and its subsidiaries and joint ventures. The main consequence of the changes relates to the fact that the total loss or gain is recognized when the transaction affects the business (regardless of whether it is a subsidiary or not). Partial gain or loss is recognized when the transaction affects a non-business asset, even when the asset is part of a subsidiary. In December 2015, the International Accounting Standards Board postponed the date of application of this standard indefinitely pending the outcome of the research related to the application of participation methods. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Group’s financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3. Standards that are issued but not yet effective and were not adopted in the past (continued)

- **IAS 1 Presentation of Financial Statements: Classification of Short-Term and Long-Term Liabilities (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022, and earlier application is permitted. The International Accounting Standards Board has issued an exposure proposal to postpone the entry into force of these amendments until January 1, 2023. The purpose of the amendments is to promote consistency in the application of requirements by helping companies determine whether the statement of financial position, debts and other liabilities uncertain maturity dates need to be classified as short-term or long-term. The amendments affect the presentation of liabilities in the statement of financial position and do not change the existing requirements regarding the measurement or timing of recognition of any assets, liabilities, income or expenses, or the information that the company discloses about these items. Also, the amendments clarify the requirements for the classification of debt that a company can settle by issuing its own equity instruments. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The International Accounting Standards Board has issued amendments to IFRS of narrow scope as follows:

- **IFRS 3 Business Combinations (Amendments)** updates the reference in IFRS 3 Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibits an entity from deducting from the cost of property, plant and equipment amounts received from the sale of manufactured items while the company is preparing an asset for its use. Instead, the company will recognize such sales revenue and related costs in the income statement.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** what costs an entity includes in determining the cost of performing a contract to assess whether the contract is onerous.
- **Annual improvements** lead to minor changes to IFRS 1, the first-time adoption of International Financial Reporting Standards, if IFRS 9 Financial Instruments, IAS 41 Agriculture and Illustrative Examples accompany IFRS 16 Leases.

The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- **Interest Rate Benchmark Reform - Phase 2 - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

In August 2020, the International Accounting Standards Board (IASB) has published 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments provide temporary relief to address the effects of financial reporting when the interbank offered rate (IBOR) is replaced by an alternative close to risk-free rate (RFR). In particular, the amendments provide for a practical exception when calculating changes in the basis for determining the contractual cash flows of financial assets and liabilities, in order to require an adjustment to the effective interest rate, equivalent to market interest rate movements. The amendments also introduce facilities for termination of a hedging relationship, including a temporary exemption from the need to meet a separately identifiable requirement when an RFR instrument is designated for a hedging risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurance companies that continue to apply IAS 39 to receive the same benefits as those provided for in the amendments to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures that enable users of financial statements to understand the effects of reference interest rate reform on financial instruments and entity risk management strategy. The amendments are effective for annual periods beginning on or after January 1, 2021, with the possibility of earlier application. When the application is retrospective, the entity is not required to modify data from prior periods. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.4. Comparative data

For all amounts disclosed in the financial statements under the items of the current period, comparative data in respect of previous year is also presented, unless standards or interpretations allow or require otherwise. For amounts disclosed under application of IAS 8, comparative data is adjusted to the current year's ones.

In 2021, the Parent Bank changed its accounting policy in the matter subsequent evaluation of investment property and accordingly made appropriate adjustments to the previously stated Balance Sheet as of December 31, 2020, as well as the Income Statement for the year 2020. The adjustments were made in accordance with the requirements of IAS 8 - Accounting Policies, Changes in Accounting Policies and Errors, as explained in detail in Note 2.5.

2.5. Changes in accounting policies

Pursuant to the Decision made by Board of Directors dated December 17, 2021, the Parent Bank's management changed the accounting policy for subsequent evaluation of investment property and thus previously used cost method after initial recognition was replaced with the fair value method. The new policy applies to all investment properties of the Parent Bank.

The Parent Bank's management has voluntarily changed the accounting policy in order to comply it with the accounting policies of the NLB Group, as well as compiling financial statements that will result in providing more reliable and relevant information on the effects of transactions on the financial position and financial performance of the Bank.

2.5.1 Effects of changes in accounting policies

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires that changes in accounting policies be made retrospectively, unless the amount of resulting adjustments relating to relevant prior periods or the cumulative effect of accounting policies cannot be determined with sufficient reliability. Accordingly, on this basis, changes in the fair value of investment property, based on estimates of the value of individual properties from 2019, are recorded as an adjustment to the opening balance of retained earnings on January 1, 2020, while changes in fair value relative to estimates on December 31, 2020, recorded against income statement for 2020.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

a) Outcome of balance sheet adjustments on January 1, 2020

	2019	Adjustments +/-	January 1, 2020
ASSETS	***previous***		***adjusted***
Cash and assets held with the central bank	76,654,402	-	76,654,402
Securities	144,479,431	-	144,479,431
Loans and receivables from banks and other financial organisations	26,990,004	-	26,990,004
Loans and receivables from clients	208,234,158	-	208,234,158
Intangible assets	754,500	-	754,500
Property, plant and equipment	7,254,391	-	7,254,391
Investment property	2,202,616	968,003	3,170,619
Current tax assets	6,786		6,786
Deferred tax assets	1,076,255	-	1,076,255
Non-current assets held for sale and discontinued operations	500,740	-	500,740
Other assets	7,602,611	-	7,602,611
TOTAL ASSETS	**475,755,894**	**968,003**	**476,723,897**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	8,318,606	-	8,318,606
Deposits and other financial liabilities to clients	370,987,710	-	370,987,710
Provisions	2,483,410	-	2,483,410
Current tax liabilities	2,673	-	2,673
Deferred tax liabilities	32,349		32,349
Other liabilities	14,559,570	-	14,559,570
TOTAL LIABILITIES	**396,384,318**	**-**	**396,384,318**
EQUITY			
Share capital	40,034,550	-	40,034,550
Profit	9,981,896	968,003	10,949,899
Loss	1,370,332	-	1,370,332
Reserves	30,725,392	-	30,725,392
Non-controlling interests	70	-	70
TOTAL EQUITY	**79,371,576**	**968,003**	**80,339,579**
TOTAL LIABILITIES AND EQUITY	**475,755,894**	**968,003**	**476,723,897**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

b) Outcome of balance sheet adjustments on December 31, 2020

	2020	Adjustments +/-	2020
ASSETS	***previous***		***adjusted***
Cash and assets held with the central bank	86,892,070	-	86,892,070
Securities	158,438,656	-	158,438,656
Loans and receivables from banks and other financial organisations	18,865,483	-	18,865,483
Loans and receivables from clients	219,433,627	-	219,433,627
Intangible assets	578,413	-	578,413
Property, plant and equipment	6,743,199	-	6,743,199
Investment property	2,145,007	573,676	2,718,683
Current tax assets	19,661	-	19,661
Deferred tax assets	2,484	-	2,484
Non-current assets held for sale and discontinued operations	370,663	-	370,663
Other assets	6,806,000	-	6,806,000
TOTAL ASSETS	**500,295,263**	**573,676**	**500,868,939**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	8,096,190	-	8,096,190
Deposits and other financial liabilities to clients	406,192,067	-	406,192,067
Provisions	2,696,346	-	2,696,346
Current tax liabilities	2,079	-	2,079
Deferred tax liabilities	176,573	-	176,573
Other liabilities	5,569,878	-	5,569,878
TOTAL LIABILITIES	**422,733,133**	**-**	**422,733,133**
EQUITY			
Share capital	40,034,550	-	40,034,550
Profit	4,811,998	573,676	5,385,674
Loss	1,261,380		1,261,380
Reserves	33,976,892	-	33,976,892
Non-controlling interests	70		70
TOTAL EQUITY	**77,562,130**	**573,676**	**78,135,806**
TOTAL LIABILITIES AND EQUITY	**500,295,263**	**573,676**	**500,868,939**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

c) Outcome of income statement adjustments on December 31, 2020

	As of December 31, 2020 *previous*	Adjustments +/-	As of December 31, 2020 *adjusted*
Interest income	14,731,985	-	14,731,985
Interest expenses	(1,443,962)	-	(1,443,962)
Net interest gains	**13,288,023**	**-**	**13,288,023**
Income from fees and commissions	7,205,485	-	7,205,485
Expenses on fees and commissions	(1,938,963)	-	(1,938,963)
Net gains from fees and commissions	**5,266,522**	**-**	**5,266,522**
Net gains from changes in fair value of financial instruments	98,046	-	98,046
Net gains from derecognition of the financial instruments measured at fair value	174,399	-	174,399
Net exchange rate gains / (losses) and gains / (losses) from agreed currency clause	17,980	-	17,980
Net income / (expenses) from impairment of financial assets not measured at fair value through income statement	(1,264,236)	-	(1,264,236)
Other operating income	227,097	-	227,097
TOTAL NET OPERATING INCOME	**17,807,831**	**-**	**17,807,831**
Salaries, salary compensations and other personal expenses	(6,491,790)	-	(6,491,790)
Depreciation costs	(1,174,588)	38,420	(1,136,168)
Other income	921,602	30,335	951,937
Other expenses	(6,784,601)	(463,082)	(7,247,683)
PROFIT BEFORE TAX	**4,278,454**	**(394,327)**	**3,884,127**
		-	
Income tax	(7,309)		(7,309)
Gains from deferred taxes	122,101	-	122,101
Loss on deferred taxes	(1,391,735)	-	(1,391,735)
PROFIT AFTER TAX	**3,001,511**	**(394,327)**	**2,607,184**
		-	
RESULT FOR PERIOD - PROFIT	**3,001,510**	**(394,327)**	**2,607,184**
Profit attributable to equity owners			**2,607,183**
Profit attributable to non-controlling interests	**1**	**-**	**1**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.5. Changes in accounting policies (continued)

2.5.1. Effects of changes in accounting policies (continued)

d) Outcome of changes in equity adjustments for the year 2020

	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Revaluation reserves (debit balance)	Profit	Loss	Non-controlling interest	Total
Opening balance as at January 1, 2020	**17,191,466**	**22,843,084**	**21,849,594**	**8,876,046**	**(248)**	**9,981,896**	**(1,370,332)**	**70**	**79,371,576**
Changes in accounting policy	-	-	-	-	**-**	968,003	-	-	**968,003**
The adjusted opening balance as at January 1, 2020	**17,191,466**	**22,843,084**	**21,849,594**	**8,876,046**	**(248)**	**10,949,899**	**(1,370,332)**	**70**	**80,339,579**
Total positive other comprehensive income for the period			**-**	13	248				**261**
Total negative other comprehensive income for the period	-	-	-	(331,981)	-	-	-	-	**(331,981)**
Profit for the current year	-	-	-	-	-	3,001,510	-	1	**3,001,511**
Adjusted profit of the current year +/-						(394,327)	-		**(394,327)**
Distribution of profit – increase			3,583,264	-	-	-	-		**3,583,264**
Distribution of profit and/or coverage of losses – decrease	-	-	-	-	-	(3,692,069)	108,805		**(3,583,264)**
Dividend payments	-	-	-	-	-	(4,477,879)	-	-	**(4,477,879)**
Other – increase	-	-	(44)	-	-	(1,460)	147	(1)	**(1,358)**
Total transactions with owners	**-**	**-**	**3,583,220**	**-**	-	**(8,171,408)**	**108,952**	**-**	**(4,479,237)**
Balance as at December 31, 2020	**17,191,466**	**22,843,084**	**25,432,814**	**8,544,078**	-	**5,385,674**	**(1,261,380)**	**70**	**78,135,806**

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

e) Outcome of earning per share adjustments

	In thousands of RSD	*In RSD*
	Increase / decrease the results attributable to shareholders	Increase / decrease in basic earnings per share
Effects of changes in accounting policies	(394,327)	(23)

	2020 *previous*	2020 *adjusted*
Basic earnings per shares (in RSD without paras)	173	150

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.6. Comparative summary of the consolidated balance sheet for December 31, 2020

Due to the legal change occurred within Group, the consolidated balance sheet for December 31, 2020 is presented below according to the Group's composition as at December 31, 2021 (excluding Komercijalna banka a.d. Podgorica and Komercijalna banka a.d. Banja Luka).

Outcomes of the balance sheet as at December 31, 2020:

	2020	Adjustments +/-	2020
ASSETS	***previous***		***adjusted***
Cash and assets held with the central bank	86,892,070	(6,846,963)	80,045,107
Securities	158,438,656	(4,509,767)	153,928,889
Loans and receivables from banks and other financial organisations	18,865,483	(707,034)	18,158,449
Loans and receivables from clients	219,433,627	(30,137,538)	189,296,089
Investments in associates and joint ventures	-	1,467,680	1,467,680
Intangible assets	578,413	(67,744)	510,669
Property, plant and equipment	6,743,199	(697,725)	6,045,474
Investment properties	2,145,007	(325,500)	1,819,507
Current tax assets	19,661	(7,347)	12,314
Deferred tax assets	2,484	-	2,484
Non-current assets held for sale and discontinued operations	370,663	(240,237)	130,426
Other assets	6,806,000	1,238,218	8,044,218
TOTAL ASSETS	**500,295,263**	**(40,833,957)**	**459,461,306**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	8,096,190	(3,107,103)	4,989,087
Deposits and other financial liabilities to clients	406,192,067	(33,492,666)	372,699,401
Provisions	2,696,346	(151,819)	2,544,527
Current tax liabilities	2,079	(2,079)	-
Deferred tax liabilities	176,573	(29,173)	147,400
Other liabilities	5,569,878	(593,510)	4,976,368
TOTAL LIABILITIES	**422,733,133**	**(37,376,350)**	**385,356,783**
EQUITY			
Share capital	40,034,550	-	40,034,550
Profit	4,811,998	524,192	5,336,190
Loss	(1,261,380)	1,261,380	-
Reserves	33,976,892	(5,243,109)	28,733,783
Non-controlling interests	70	(70)	-
TOTAL EQUITY	**77,562,130**	**(3,457,607)**	**74,104,523**
TOTAL LIABILITIES AND EQUITY	**500,295,263**	**(40,833,957)**	**459,461,306**

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.6. Comparative summary of the consolidated balance sheet for December 31, 2020 (continued)

Shown adjustments do not include those arose from retroactive application of changed accounting policies for subsequent evaluation of investment property of the Parent Bank, adopted in 2021 (the effects of the change in accounting policies are shown in Note 2.5).

Since the Parent Bank lost control over its subsidiary banks in November and December 2021, respectively, comparable data for the consolidated income statement have not been changed.

3. OVERVIEW OF BASIC ACCOUNTING POLICIES

(a) Consolidation

In 2021, the Parent bank has control over the following legal entities, the consolidation of which has been made in these financial statements:

Legal entity	Share in entity's capital
Komercijalna banka ad, Podgorica, Montenegro	100%
Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina	99.99%
UCITS Fund Management Company KomBank INVEST a.d., Belgrade	100%

During 2021, the Parent bank lost control over:

- Komercijalna banka a.d. Podgorica, Montenegro due to the legal status change - merger to NLB banka a.d. Podgorica occurred in November 2021. The Bank's equity share in NLB banka a.d. Podgorica after the merger amounts to 23.97% and in this regard the legal status became associate of the parent bank;
- Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina by selling 100% of shares occurred in December 2021.

The consolidated financial statements show profit or loss, other comprehensive income of subsidiaries disposed during the year are recognized until the date of control loss.

Consolidated financial statements show investments in associates at equity method. Associates are entities in which the Parent Bank has between 20% and 50% of voting rights and over which it has significant influence but no control.

In accordance with the equity method, investments in associates are initially recognized at cost (investment amount), and then for changes that occur after the acquisition date, the Group's share in the net assets of the associate is adjusted. The Group's share of the profit or loss after the acquisition of an associate is recognized in the consolidated income statement, and its share of the other result is recognized in the other result of the Group. Dividends collected are recognized as a reduction in the carrying amount of the investment. A share in the loss of an associate is recognized up to the amount of the investment, unless the Group has committed or made a payment on behalf of the associate. The Group begins to recognize a share of the profit again after its share of the profit equals the share of the loss that was not recognized.

Standalone financial statements show investments in subsidiaries and associates at cost less impairment loss.

In order to prepare consolidated income statement and the consolidated cash flow statement reclassified forms of subsidiaries' standalone profit and loss statement and cash flow statement were recalculated using the average exchange rate of the National Bank of Serbia for the period January 1, 2021 as of the last day of control over subsidiaries – RSD 117.5725 for 1 EUR and RSD 60.1141 for 1 BAM, and other reclassified financial statements (statement of profit or loss and statement of changes in equity) using the closing rate on the last day of control over subsidiaries – RSD 117.5815 for 1 EUR, or 60.1194 for 1 BAM.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(b) Conversion of foreign exchange amounts

Business transactions in foreign currency are translated into RSD at the middle exchange rate of the currency that was valid on the day of the business transaction.

Monetary positions in foreign currency assets and liabilities, which are measured at cost, are translated into RSD according to the middle exchange rate prevailing at the balance sheet date. Foreign exchange differences arising from the translation of foreign exchange positions are presented in the profit and loss statement. Non-monetary positions of assets that are measured at cost in foreign currency are translated into RSD according to the average exchange rate of the currency that was valid on the day of the business transaction.

The exchange rates of the most important currencies used in the conversion of balance sheet items denominated in foreign currencies, determined by the National Bank of Serbia, are disclosed in Note 42.

(c) Interest

Interest income and expense is recognized in the income statement using the effective interest rate method. An effective interest rate is the rate at which future cash flows are discounted over the expected period of financial assets or liabilities (or, if necessary, for a shorter period) to its present value.

When calculating the effective interest rate, Group members estimate future cash flows taking into account all contractual terms relating to a financial instrument, but not future losses that may arise.

The calculation of the effective interest rate includes all paid or received fees and charges, which are an integral part of the effective interest rate – loan approval fees as well as annexation fees.

Transaction costs are costs directly attributable to the acquisition or the issuance of a financial asset or liability.

Recognition of interest income on impaired loans is done by net principle, by reducing the gross accrued interest for the amount of the impairment, or for the amount that is certain that it will not be charged.

Recognition of interest income on impaired placements that are classified as Stage 3, by net principle, is carried out using an alternative unwinding concept. When a financial asset becomes significantly impaired, from the moment of initial recognition, it becomes Stage 3, and interest income is calculated using an alternative concept of unwinding - IRC method by reducing the accrued interest income associated with it with the allowance for impairment losses recognized in the current year, whereby interest receivable is recognized at gross principle.

(d) Fees and commissions

Income from fees and commissions and expense, which are an integral part of the effective interest rate of a financial asset or liability, are included in the determination of the effective interest rate.

Other income from fees and commissions is recorded at the moment of services provided. Income from fees and commissions includes revenues from international and domestic payment services, issuance and use of payment cards, issuance of guarantees, letters of credit and other banking services. Fee and commission income is recorded at the time the services are provided. When the service is provided over time, the fees are accrued and a proportionate share is recognized as income for the period.

Fee and commission costs are mainly related to fees based on transactions and services performed and are recorded at the moment of receiving the service.

(e) Net gains based on the fair value measurement of financial instruments

Net gain based on the fair value of financial instruments includes gains less losses due to changes in value: derivatives, changes in the value of financial assets that are measured at fair value through profit and loss and gains less losses arising from changes in the value of financial liabilities valued at fair value through the profit and loss account.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(f) Net gains on the derecognition of financial instruments at fair value

Net gains on derecognition of financial instruments at fair value refer to financial assets and liabilities at fair value through profit and loss and fair value through other comprehensive income.

(g) Dividends

Dividend income is recognized at the moment of inflow of economic benefits from dividends. Dividends are shown in the position of other operating income.

(h) Leasing

At the beginning of the contract, the Group assesses whether the contract contains a leasing component or represents a lease. More specifically, it analyzes whether the contract transfers the right to control the use of separable assets over a defined period of time in exchange for a fee.

Group as leasee

The Group applies a uniform recognition and measurement approach for all leases except for short-term leases and leases of low value assets. The Group recognizes the leasing obligation to pay the lease and the right to use, which represents the right to use the fixed assets.

(i) Right of use assets

Initial recognition and measurement
The Group recognizes right of use asset on the day the lease begins (i.e. the date the asset is available for use). The right of use asset is measured at cost less accumulated depreciation and impairment losses, and is adjusted for any subsequent measurement of the lease liability. The cost of right of use asset includes the amount of recognized leasing liabilities, initial direct costs and lease payments made on or before the commencement date, less any lease incentives received.

Subsequent measurement
Right of use assets are depreciated on a straight-line basis over a period shorter than the lease term or the estimated useful life of the asset.

Right of use assets are amortized at a rate ranging from 92.31% to 6.70% annually, depending on the contractual right to use the asset. The right to use the assets is presented in Note 27 - Property, plant and equipment and are subject to impairment in line with the Group's policy as described in Note - Property and Equipment.

(ii) Leasing liabilities

At the commencement of the lease, the Group recognizes the lease liability, measured at the present value of the lease payment to be made during the lease term. Leasing payments include fixed payments less all lease incentive receivables, variable lease payments that depend on the index or rate, and amounts expected to be safely paid for residual value. Leasing payments also include the exercise price of the purchase option reasonably expected to be made by the Group and the payment of penalties for termination of the contract if the termination option is available to the Group for the duration of the contract.

Variable lease payments that do not depend on an index or rate are recognized as an expense (unless incurred to produce inventories) in the period in which the events or conditions that give rise to the payment occur.

In calculating the present value of a lease payment, the Bank uses its incremental borrowing rate at the date of commencement of the lease because the implied leasing interest rate is not easily determined. After the commencement date, the amount of the lease liability increases by the accrued interest for the previous period and decreases for the lease payments made. In addition, the carrying amount of a lease liability is remeasured if there is a modification of the contract, a change in the lease term, a change in the lease payment (e.g., changes in future payments resulting from a change in the index or rate used to determine such lease payments), or a change in the valuation of the purchase option. the underlying asset that is the subject of the lease.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

(ii) Leasing liabilities (continued)

In Parent Bank, in 2021 the incremental borrowing rate did not have large variations and ranged from 0.4748% to 2.4310 for EUR and 1.4690% to 4.7848 for RSD (in 2020: from 0.2305% to 3.1000% for EUR i.e. from 0.47950% to 4.95119% for RSD).

At Komercijalna Banka AD Banja Luka in 2021, the incremental borrowing rate ranged from 2.60% to 3.60% for KM (the same range was applied in 2020).

At Komercijalna Banka AD Podgorica, in 2021, the incremental borrowing rate ranged from 2.143% for EUR KM (the same range was applied in 2020).

(iii) Short-term leases and leases of low value assets

The Group applies an exemption from the recognition of short-term leases for its short-term leases of machinery and equipment (i.e. those leases that have a term of less than 12 months from the commencement date and do not include an option to purchase). The exemption from recognition for the lease of low value assets on the lease of office equipment also applies. Lease payments for short-term leases and leases of low value assets are recognized as an expense, pro rata over the lease term.

Group as a leasor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Lease income is calculated on a pro rata basis over the life of the contract and is recorded as income in the income statement because of its operational nature. The initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

(i) Tax expense

Tax expenses include current taxes and deferred taxes. Current taxes and deferred taxes are shown in the income statement except to the extent that they relate to items that are recognized directly within the capital or within the other comprehensive income.

(i) Current Profit tax

Current tax represents the expected liability or profit tax receivable for the accounting period, using tax rates applicable or effective at the reporting date, with appropriate tax adjustments from the previous year.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(i) Tax expense (continued)

(ii) Deferred taxes

Deferred taxes are determined in relation to temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the value of assets and liabilities for tax purposes. When defining deferred taxes, the tax rates that are expected to be applied at the time of occurrence of temporary differences are used and based on the legal regulations that were applied at the reporting date.

Deferred tax assets and deferred tax liabilities are netted if there is a legal right to net current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the tax on the profits imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a repayment or refund is expected the amount of deferred tax liabilities or assets.

Deferred tax assets are recognized for all deductible temporary differences and effects of tax losses and tax credits that can be transferred to subsequent fiscal periods to the extent that there is likely to be a taxable profit from which tax loss is transferred and loans can be reduced. Deferred tax assets are subject to an analysis at the end of each reporting period and are adjusted to the extent that it is no longer probable that the necessary taxable profit will be realized. Deferred tax liabilities are recognized for all taxable temporary differences.

(iii) Other taxes and contributions

In accordance with the applicable regulations in the Republic of Serbia, Montenegro and Bosnia and Herzegovina, the Group members pay different taxes and contributions, value added tax, capital gains tax and earnings contributions. These expenditures are included in "Other Expenses".

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

A financial asset is any asset that is:

- cash;
- equity instrument of another entity;
- contractual right to receive cash or another financial asset from another entity; or
- contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- contract that will or may be settled in the entity's own equity instruments and is and which is non-derivative and for which the Group is or may be required to receive a variable number of equity instruments;
- contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Financial liability

A financial liability is any liability that is:

- contractual obligation to deliver cash or another financial asset to another entity; or
- contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity;

Principles of measurement of financial instruments

From the aspect of classification and measurement, IFRS 9 introduces new criteria for the classification of financial assets, other than equity instruments and derivatives, based on an assessment of the business model of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

Financial assets

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

The business model determines whether cash flows arises from the collection of contracted cash flows, the sale of a financial asset or both. A business model for the classification of financial assets is determined at the appropriate level of aggregation.

Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist solely of principal and interest payments on the remaining principal (SPPI criterion).

Financial assets can be classified into the following categories:

- financial assets measured at amortized cost (AC)
- financial assets measured at fair value through profit and loss account (FVTPL)
- financial assets measured at fair value through other comprehensive income through the income statement - "recycling" (FVOCI)
- financial assets valued at fair value through other comprehensive income without recognition through profit and loss account (FVOCI)

In accordance with the classification of assets from the previous paragraph, the Group categorizes all placements from its portfolio relating 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 Group does not intend to sell in the short term
- **Securities that are measured at fair value through profit and loss statement** that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- **Securities, which include debt securities and equity securities (capital instruments)**:
    - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

  - Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.
  - Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and
- **Financial derivatives** that include forward and SWAP transactions.

Classification and measurement

From a classification and measurement perspective, the new standard required all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

According to IFRS 9, financial assets are being measured in one of the following methods: amortised cost, fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). Equity instruments that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Profit and loss statement.

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Profit and loss statement (FVTPL) in which these costs are recognized as cost in the Profit and loss statement.

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:
- goal of a business model of holding a financial asset is the collection of contracted cash flows and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and are not indicated as FVTPL:
- goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.

When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the income statement. Interest calculated using the effective interest rate is recognized in the income statement.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement (continued)

Financial liabilities

After the initial measurement, financial liabilities are assessed at amortized cost. Amortized cost is calculated taking into account the discount or premium on financial liabilities or costs that are an integral part of the EIR.

The Group does not have financial liabilities designated as FVTPL.

Impairment of financial assets

The IFRS 9 incurred loss approach with a forward-looking expected credit loss (ECL) approach through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Group defined the criteria for classifying financial instruments into stages 1, 2 and 3, depending on the degree of increase in credit risk from the moment of initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments that are valued at fair value through other comprehensive income.

Stage 1

Impairment allowance of financial instruments that are not deemed to have a significant deterioration in credit risk are calculated on the basis of 12-month expected losses (ECL) in accordance with IFRS 9. Stage 1 also includes exposures to the Republic of Serbia, the National Bank of Serbia and other exposures with a credit risk weight of 0, in accordance with the Decision on capital adequacy of the bank, except for the exposure on the basis of mandatory reserve and similar exposures.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Impairment of financial assets (continued)

Stage 2

All financial instruments in which significant increase in credit risk has been realized are classified in stage 2, and impairment allowance are calculated on the basis of expected losses for the entire lifetime of the instrument.

The Group is considering whether there is a significant increase in credit risk by comparing the life probability of probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a significant increase in credit risk is considered to be days past due of 31 to 90 days of repayment, customer restructuring, and client being on the watch list.

Stage 3

Financial instruments are included in stage 3, where multiple collection scenarios were introduced. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Group also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established.

As different levels of impairment result in different ways of calculating the expected credit losses, the Group has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

“POCI "

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Wite-offs

The subject of write-offs are receivables that the Group failed to collect despite the implementation of all collection activities defined by its policies and procedures: extension, restructuring, settlement, taking over collateral to collect receivables, concluding contracts with interested third parties, litigation and other.

If the measures taken to regulate placements, ie forced collection and court proceedings did not give the expected results, ie when there is no possibility of collecting receivables in full, a proposal for permanent write-off of the Bank's remaining receivables or transfer from on-balance sheet to off-balance sheet records is initiated.

Pursuant to the Decision of the National Bank of Serbia on the accounting write-off of the balance sheet assets "Official Gazette of RS", no. 77/2017 dated August 10, 2017, the Bank write-off non-performing receivables in the case when impairment recorded in favor of allowance for impairment amounts 100% of its gross book value.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

(iii) Derecognition

Members of the Group cease to recognize a financial asset when the contractual rights over cash flows associated with an asset expire, or when a member of the Group transfers the transaction with all essential rights and benefits related to the ownership of a financial asset or if it does not transfer or retain all substantive property rights, but does not retain control over a financial asset. All ownership of a transferred financial asset that meets the criteria for termination of recognition that a Group member has created or retained is recognized as a separate asset or liability in the balance sheet. Upon derecognition of a financial asset, the difference between the carrying amount (or the carrying amount of the part of the asset transferred), and collect the received remuneration (including new assets acquired less for new assumed liabilities), as well as the aggregate gains or losses previously recognized in the report on the total result are recognized in the income statement.

A member of the Group carries out transactions by which it transfers the assets recognized in his balance sheet, although he reserves all or substantially, all the risks and benefits or part of the transferred assets. If all or substantially all risks and benefits are retained, then there is no cessation of recognition of the asset. The transfer of funds by retaining all or substantially all risks and benefits includes, for example, re-purchase transactions.

In the case of transactions in which a member of the Group neither holds, nor transfers substantially all the risks and rewards of ownership of a financial asset and retains control over the asset, a member of the Group continues to recognize the asset to the extent that its relationship with the asset continues, which is determined on based on its exposure to changes in the value of the transferred asset. A member of the Group shall execute the obligation when the obligation is settled, terminated or transferred to another.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

(iiii) Modifications

Amendments to the contract due to the financial difficulties of the debtor are not considered a significant modification leading to the derecognition of the financial asset.

In accordance with IFRS 9, the Group determines the new gross carrying amount of a financial asset and recognizes income or expense based on a modification in the profit and loss statement. The effect is recognized as income / expense based on the decrease / increase in impairment of financial assets that are not measured at fair value through profit or loss. The gross carrying amount of a financial asset is determined as the present value of the modified cash flows discounted at the original effective cash interest rate. Any transaction costs incurred adjust the carrying value of the modified financial asset and are amortized over its useful life.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

(iiiii) Netting

Financial assets and liabilities are netted and the net amount is disclosed in the statement of financial position only when the Group has the legal right to net recognized amounts and when it intends to settle liabilities on a net basis or at the same time realize the asset and settle the obligation.

Income and expense is disclosed by net principle only when permitted by IFRS or for income and expenses arising from a group of similar transactions, such as transactions held by the Group's members in trading.

Accounting policies for calculation of Expected Credit Losses are described in Note 4. Risk Management, 4.1. Credit risk - IFRS 9 Financial Instruments.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, assets with central banks that can be unrestrictedly disposed of and highly liquid financial assets with originally initial maturity shorter than 3 months, low risk of change in value, used by the members of the Group for short-term liquidity management. Cash is measured at amortized cost in the balance sheet.

(l) Property and equipment

(i) Recognition and measurement

Initial measurement of property and equipment is done at cost.

The cost includes expenses directly attributable to the acquisition of the asset. Purchased software, which is an integral part of the software necessary for the functional usability of the equipment, is capitalized as part of this equipment.

After initial recognition, the equipment is measured at cost less accumulated depreciation and total accumulated losses due to the impairment.

After initial recognition, the property is measured at the revaluation amount, which represents their fair value at the revaluation date less the subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis in order to ensure that the carrying amount does not differ significantly from the value that would have been achieved using fair value at the end of the reporting period.

Recording the effects of revaluation depends on whether the difference between the carrying amount of the asset and its fair value at the date of revaluation is positive or negative. Positive effects are recognized as an increase in the revaluation reserve and / or as income from changes in the value of fixed assets to the level of previously recognized expenses on the same basis for the same asset. Negative effects are recognized as a reduction in the previously formed revaluation reserve and / or as an expense based on changes in the value of fixed assets. The revaluation reserve arising on this basis is transferred in full to retained earnings upon derecognition of the property. The revaluation reserve can be transferred to retained earnings while the asset is used in the amount of the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset. The transfer of revaluation reserves to retained earnings is not made through the income statement.

When parts of the property or equipment have different useful lives, they are kept as separate items (main components) of the equipment.

Gains or losses arising from the disposal of property and equipment are determined as the difference between the value of their sale and their carrying amount and are recorded in other income or expenses.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(l) Property and equipment (continued)

(ii) Subsequent costs

Replacement cost for an item of property, plant and equipment is recognized as part of the carrying amount of that fixed asset if it is probable that future economic benefits associated with that component will accrue to the Group member and if the cost of the cost of that part can be reliably measured. The carrying amount of the replaced part is written off. Maintenance costs for property and equipment are recognized in the Profit and loss statement when they arise.

(iii) Depreciation

Depreciation is recognized in the Profit and loss statement in equal annual amounts over the estimated useful lives of a given item of real estate, plant and equipment, since this way best reflects the expected consumption of the useful economic value contained in the asset. Leased assets are depreciated during the lease period or useful life of the asset, depending on the period of time it is shorter.

The applied depreciation rates in the current and previous accounting period are:

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	5 - 10	10 - 20%
Investments in other fixed assets	4.58 - 20	5 – 21.83%
Leased fixed assets	1.1-14.11	6.70%-92.31%

The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.

Maintenance costs are recognized in the Profit and loss statement for the period in which they are incurred.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(lj) Intangible assets

Intangible assets are valued at cost less amortization and impairment losses.

Subsequent costs from investing in intangible assets can only be capitalized in the event of increased future economic benefits from the assets to which they relate. All other costs represent the expense of the period in which they were incurred.

Amortization is presented in the profit and loss statement in equal annual amounts during the estimated useful lives of the item of intangible assets, since it thus best reflects the expected consumption of the useful economic value contained in the asset. Estimated useful lives of non-material investments is 3 to 10 years, i.e. amortization rates range from 10.00% to 33.34%.

The method of amortization, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.

(m) Investment property

Investment properties represent real estate held to earn rental income or capital appreciation for both purposes and not for sale in a regular course of business or for use in the production or purchase of goods or services or for administrative purposes.

Initial valuation of investment property is carried out at cost. The cost of the purchased investment property includes its purchase price and all expenses directly attributable to the acquisition of the asset.

After initial recognition, the parent bank subsequently measures investment property at fair value. Fair value is the price that would be charged to sell an asset or paid to transfer a liability in a regular transaction between market participants at the measurement date.

Gains or losses arising from changes in the fair value of investment property are recognized as income or expense in the period in which they arise.

In 2021, the Parent bank voluntary changed accounting policy for the subsequent valuation of investment property and instead of previously used cost method, the fair value method is now valid (Note 2.5).

(n) Impairment of non-financial assets

The carrying amount of non-financial assets is analysed at the end of each reporting period in order to determine whether there are impairment indicators. In case it is determined that there are certain indicators of impairment, the recoverable amount of the assets is determined. An impairment loss is recognized if the carrying amount of the asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is determined as a value that is greater than the asset's fair value and fair value. For the purposes of determining the use value, estimated future cash inflows from the asset are discounted to their present value, using a pre-tax discount rate, reflecting the current market estimate of the time value of money as well as asset-specific risks.

An impairment loss is recognized in the case where the carrying amount of an asset is greater than its recoverable amount. An impairment loss is recognized within the results of the period.

Impairment losses from previous periods are estimated at the end of each reporting period in order to determine whether loss reductions have occurred or that they no longer exist. An impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount of the asset. Impairment losses are reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, less amortization, in the event that there was no recognition of the impairment loss.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(o) Deposits, loans and subordinated liabilities

Deposits, debt securities, loans and subordinated liabilities are the main source of financing for the Group.

The Group classifies financial instruments as financial liabilities or as equity in accordance with the substance of the contractual terms for a specific instrument.

Deposits, debt securities, loans and subordinated liabilities are initially valued at fair value plus all direct transaction costs, while their subsequent valuation is carried at amortized cost using the effective interest rate method.

(p) Provisions

Provision is recognized when a Group expects, as a result of past events, to have a present legal or enforceable obligation that can be reliably identified and whose settlement is expected to result in an outflow of resources representing economic benefits to the Group. The provision is determined by discounting the expected future cash outflows using a pre-tax discount rate that reflects the current market estimate of the time value of money and, where appropriate, the risks specific to the obligation.

(r) Employee benefits

In accordance with regulations, members of the Group are obliged to pay liabilities to state funds to ensure the social security of employees. These obligations include employee contributions at the expense of the employer in amounts calculated according to the rates laid down by relevant legal regulations. Members of the Group are also obliged to suspend contributions from employees' gross salaries and to pay them on behalf of employees. Contributions made at the expense of the employer and contributions made at the expense of the employee shall be credited to the expense of the period

In accordance with the Labour Law, members of the Group are obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at December 31, 2021, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in Note 33.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(s) Financial guarantees

Financial guarantees are contracts that a Group member is obligated to make to their customers for losses incurred due to default of a particular debtor by default, and in accordance with the terms of the debt instrument.

Liabilities for financial guarantees are initially recognized at fair value, and the initial fair value is amortized over the term of the financial guarantee. The liability under the guarantee is subsequently measured in the amount that is greater than the amortized value and the present value of the expected future payment (when the payment on the basis of the guarantee is likely). Financial guarantees are recorded under off-balance sheet items.

(t) Capital and reserves

The Group's capital includes founding shares, future issuance shares, emission premium, reserves, fair value reserves, accumulated results and the result of the current year.

(u) Earnings per share

The Parent bank displays basic and diluted earnings per share for its own ordinary shares. The basic earnings per share is calculated by dividing the gain or loss attributable to the owners of ordinary shares of the Parent bank weighted average of the number of ordinary shares in circulation during the period.

The diluted earnings per share is calculated by dividing the adjusted gain or loss attributable to ordinary shareholders for the effects of preferential, convertible shares, weighted average of the number of ordinary shares in circulation during the period.

(v) Segment reporting

The business segment is part of the Group - a member of the Group, which independently deals with business activities from which revenues can be generated and incurred, including revenues and expenses arising from transactions with other members of the Group, whose business result is regularly controlled by the Parent bank's management (as the main operational decision maker), to make decisions about resource allocation by segments and evaluate their results.

In accordance with the International Financial Reporting Standard 8 - Business Segments, the Group also discloses information about the operation of operational segments, thus providing information users with additional information on revenues and expenditures arising from key business activities (Note 6.2).

When determining the operational segments, the following were used:

a) Different products and services that segments offer;
b) Separate Segment Management and
c) Structure of internal reporting.

4. RISK MANAGEMENT

The banking group recognized the risk management process as a key element of business management, since exposure to risks stems from all business activities, as an inseparable part of banking operations, managed through identification, measurement, evaluation, monitoring, control and mitigation, or the establishment of risk limits , as well as reporting in accordance with strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Group is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment. Given that both the parent Bank and its subsidiaries within the Komercijalna Banka Group became members of the NLB Group at the end of 2020, additional adjustments of the risk management system with the risk management system of the NLB Group will be made in the upcoming period.

The risk management process includes clearly defining and documenting the risk profile, as well as its alignment with the Group's preference for risk and risk tolerance, in accordance with adopted strategies and policies.

With Risk Management Strategy and Capital Management Strategy, the Group has set the following objectives within the framework of the risk management system: minimizing the negative effects on the financial result and capital, while respecting the defined risk tolerance framework, diversifying the risks to which the Group is exposed, maintaining the required level of capital adequacy, maintaining the participation NPL in total loans to acceptable level for the Group, the highest acceptable level of non-performing loans, maintenance of indicators of liquid assets coverage above the level and regulated by regulations and internal limits, the development of the Group's activities in accordance with the business strategy and market development in order to achieve competitive advantages. The objectives of risk management are in line with the Group's business plan.

Recognizing the changes in the regulations of the National Bank of Serbia and the need to further improve the risk management process, recommendations of the external auditor, as well as new situation caused by the COVID-19 pandemic, in 2021 the Group made appropriate changes to internal acts governing risk management.

Risk Management System

The risk management system is defined by the following acts:
• Risk Appetite Management Framework - Statement;
• Risk Management Strategy and Strategy and Capital Management Plan;
• Risk management policies;
• Risk management procedures;
• Methodologies for managing individual risks;
• Other acts.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The Group's risk appetite management framework - The statement defines the basic principles of the Bank's risk appetite management, as well as a set of indicators that best represent the Group's exposure to material risks (credit risk, liquidity risk, interest rate risk, foreign exchange risk, operational risk and capital adequacy). Appetite Risk Management Framework - The statement defines a set of limits and objectives for the listed risk exposure indicators. The Group's risk appetite is in line with NLB dd's risk appetite, and in line with the defined plan.

The risk management strategy defines the basic risks to which the Group is exposed or may be exposed, as well as the basic principles of identification, monitoring, measurement, control and management of these risks, as well as risk appetite. The strategy establishes a comprehensive and reliable risk management system, which is included in all activities of the Group and which ensures that the appetite and risk profile are always in line with the already identified risk appetite. The risk management system is proportional to the nature, scope and complexity of the Group 's operations, ie its risk profile.

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 Group, as well as the basic principles of risk management arising from exposures in dinars with a currency clause in foreign currency and exposures in foreign currency.

The key principles related to risk-taking, which are an integral part of business decision-making, are expressed using the following criteria:

- identifying life and business activities that are not acceptable to the Group, in terms of risks taken,
- determining the maximum amount of risk taken,
- monitoring the profitability of individual transactions in relation to the risks taken.

The Group's risk management strategy is based on:

- strategic goals defined in the Business Strategy of Komercijalna banka AD Belgrade,
- guidelines on risk appetite defined in the risk appetite of Komercijalna banka AD Belgrade,
- regular annual review of strategic goals, business planning and capital planning processes,
- the process of internal capital adequacy assessment (ICAAP) and internal liquidity assessment (ILAAP),
- activities and measures in case of activation of the Recovery Plan,
- other internal stress tests and risk analysis,
- regulatory and internal reports,
- Risk Preference and Risk Management Strategy at the level of the NLB Group.

The Banking Group is guided by the main principles of risk management:

- takes into account the basic concept of risk appetite and the limits defined in the Group's risk appetite;
- includes risk analysis in the decision-making process at the strategic and operational levels in order to prevent risks posed by variable exposures with potentially negative outcomes;
- applies diversification to avoid concentration at the portfolio level;
- includes and optimally uses capital and manages its allocation through business segments;
- creates an adequately balanced (adjusted) price to the weighted risk;
- ensures general harmonization of operations through internal acts / documents;
- provides an adequate internal control system based on the "three lines of defence" model.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The Banking Group has identified the basic principles of risk management in order to fulfil its long-term goals:

- taking over and managing risks, the implementation of the Group's business strategy and plans has been adjusted;
- Acquisition and risk management is based on a risk management system that is in line with legal regulations in the Republic of Serbia, standards in the NLB Group and good business practice in this area;
- Risk taking and management is one of the key management functions in the Group. This function is integrated into all business activities of the Group, so that the phases of identification, measurement and monitoring of risks, on the one hand, and the adoption and management of the principles of risk, mutual relations, independence of the state, independence. ;
- Risk taking and management is based on risk management strategy and policy. It is a documented process with clearly defined goals, activities, powers and responsibilities;
- Risk taking and management is determined according to established legal and internally prescribed restrictions by risk categories, with clearly defined procedures in case of exceeding the limit;
- Assumption and management of risks implies the establishment and implementation of an appropriate system of internal control. These controls are a set of processes and procedures that include continuous verification, reporting, and changes to develop or improve a risk management system.

Within the management of NPE (exposure to default), depending on the assessment of the potential repayment capacity and business viability of clients, the Group has the following options:

- agreement with the client on voluntary (out-of-court and judicial) payment of obligations;
- centralized collection before the court by telephone;
- debt restructuring without discounts;
- discount debt restructuring;
- debt collection (liquidation of collateral - sale of real estate, movable property, securities, shares, receivables, etc.);
- taking over adequate assets (especially real estate - a solution based on the foundations of special purpose entities, aimed at comprehensive management of mortgaged real estate);
- write-off of remaining receivables in case all legal possibilities have been exhausted;
- sale of receivables, if possible, in a package;
- active management of issued guarantees for bankrupt construction companies in cooperation with contractual partners;
- application of other measures to achieve maximum debt repayment.

Principles of risk management arising from dinar exposures with a foreign currency clause and foreign currency exposures include:

- Foreign exchange exposure management group by setting limits,
- As a long-term goal, the Group exists to reduce the share of foreign exchange exposures,
- The Group sets the limit in a way that optimizes the risk that may arise from the level of foreign exchange exposure and the implementation of business strategy,
- Risk assessment of foreign exchange exposure is included in the lending process and clients are presented with the risks that may arise due to changes in foreign exchange rates as well as proposed measures to reduce risk,
- In assessing the creditworthiness of debtors, the Group takes into account the risk of changes in exchange rates in accordance with defined rules,
- The level of risk arising from foreign exchange exposure is subject to regular reporting to the competent committees of the Group,
- The Group calculates the internal capital requirement for foreign exchange exposures.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

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

- The way of organizing the banking risk management process of the Banking Group and the 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 banking group and the methodology for identifying and measuring, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the banking Group 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 banking group;
- Principles of functioning of the internal control system;
- The framework and frequency of stress testing, as well as handling in cases of adverse stress test results.

Risk Management Procedures the Group details the risk management process and the responsibilities and responsibilities of all organizational parts of the parent Bank and members of the banking group in the risk management system.

The individual methodologies of the Group members set out in more detail the methods and approaches used in the risk management system.

Jurisdictions

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

The *Executive Board* is responsible and accountable for the implementation of the risk management strategy and strategy and the capital management strategy by 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 analyses 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 Group's exposure to a related parties and report to Board of Directors about mentioned.

The *Audit Committee (Business Monitoring Committee)* is responsible and accountable for the analysis and supervision of the application and adequate implementation of the adopted strategies and policies for risk management and internal control systems of the parent Bank and the Group. At least once a month, the Board of Directors reports on its activities and irregularities and proposes the way in which they will be removed, proposes improvement of policies and procedures for risk management and implementation of the internal control system.

4. RISK MANAGEMENT (continued)

Jurisdictions (continued)

The *Assets and Liabilities Management Committee* is competent and responsible for monitoring the exposure to risks arising from the structure of balance sheet receivables, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk. Each member of the Group has an Asset and Liability Management Committee.

The *Credit Committee* decides on credit requirements within the framework of the Bank's founding regulations, analyses the exposure of the parent Bank to credit, interest and currency risk, analyses the loan portfolio, and also proposes measures to the Executive Board of the parent Bank. Each member of the Group has a credit committee which decides within its competencies and limits.

The *Risk management function* of the parent Bank defines and proposes to adopt the strategy, policies, procedures and methodology of risk management, identifies, measures, mitigates, monitors and controls and reports on the risks to which the parent Bank and the Group are 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 banking group.

The *Bank's Asset Management Division* is responsible for managing assets and liquidity, as well as managing Assets and Liabilities at the Group level. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The *Internal audit function* is responsible for continuously conducting an independent evaluation of the risk management system at the Group level, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal audit function reports to Audit Committee and Board of Director about its findings and recommendations. .

The *Compliance function* is obliged to identify and assess the risks of compliance of the operations of the parent Bank, as well as the Group member, propose risk management plans, and reports to Executive Board and Board for monitoring of operations of the Parent Bank, at least annually.

Risk management process

At the banking Group level, the risks identified in the business are assessed regularly. Measurement implies the application of qualitative and quantitative methods and measurement models that allow for the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, their significance is determined based on a comprehensive risk assessment that is characteristic of particular business, products, activities and processes of the banking Group.

Risk mitigation involves diversification, transfer, reduction and / or risk avoidance, in line with risk profile, risk pricing and risk tolerance for the banking group.

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, which depend on the business strategy and market environment, as well as on the level of risk that the Group is ready to accept.

The Group has established a regular risk and risk profile reporting system that enables relevant employees at all levels in the Group to provide timely, accurate and sufficiently detailed information needed to make business decisions and efficient risk management, that is, secure and stable operations.

4. RISK MANAGEMENT (continued)

Types of risk

The Banking Group is particularly exposed in the business to the following types of risks: credit and related risks, liquidity risk, market risk, operational risk, investment risk, concentration risk, exposure and country risk, as well as all other risks that may arise in the ordinary course of business member of the Group.

4.1. Credit risk

Credit risk is the risk of the possibility of adverse effects on the Group's financial result and capital due to non-performance of the debtor's obligations towards members of the Group.

During 2020 and 2021, a special challenge for credit risk management is posed by the conditions caused by the COVID-19 pandemic, which are completely different from the previous business circumstances that the industry and financial sectors have faced.

Members of the Group have defined criteria for granting loans, changing conditions, extending the deadline and restructuring the receivables, which are prescribed by procedures and methodologies for placement approval and risk management.

Prior to the approval of placements, the Group members assess the creditworthiness of the debtor as the primary source of repayment of loans based on internally defined criteria and the collateral offered as a secondary source of collection. Based on the identified and measured level of credit risk (assessment of the financial condition and creditworthiness of the debtor, as well as the value and legal security of credit protection and other relevant factors) and independent risk assessment, competent persons, committees and bodies of the Group members, make a decision on approval / changes of placements, in accordance with the defined decision system.

The Group defined the decision on the exposure to credit risk through the decision-making system, depending on the type of clients and the level of exposure. Credit decision makers are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors.

When making decisions, the principle of dual control of the so-called. A "four eyes principle", which ensures that there is always a proposed party and a party that approves a particular placement.

Since both the parent Bank and its subsidiaries within the Komercijalna Banka Group became members of the NLB Group in 2021, the process of harmonizing the internal rating system with the corresponding system at the level of the NLB Group has begun, which will be subject to further improvements in the next period..

The organizational model of the Group's credit risk management system 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, competencies and responsibilities. Members of the Group have established an adequate information system that includes full information of persons involved in the credit risk management system.

In accordance with the scope, type and complexity of the operations it performs, the Group has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process

The acceptable level of exposure to the Group's credit risk is in line with the defined risk management strategy and depends on the structure of the Group's portfolio, which limits the potential impact of negative effects on the financial result and capital adequacy.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The basic principles of credit risk management are:

- Credit risk management at the level of individual placements and at the level of the Group's entire portfolio;
- Maintaining the level of credit risk that minimizes the negative impact on the financial result and equity;
- Ranking of placements according to their risk;
- Performance in accordance with good practices for approving loans;
- Providing adequate controls for credit risk management.

With the aim of credit risk management, the Group's members strive to deal with clients with good creditworthiness and obtain appropriate payment security instruments. Members of the Group assess the creditworthiness of each client at the time of filing the application and monitor debtors, placements and collaterals in order to be able to undertake appropriate activities for the purpose of collecting receivables.

All members of the Group perform quantitative and / or qualitative measurement, i.e. an assessment of the identified credit risk. The process of measuring credit risk is based on measuring the risk level of individual placements based on the internal rating system.

A rating system is an instrument for making individual decisions and assessing the level of risk of individual placements. In addition, the rating system serves to assess the level of risk of the total portfolio, and is also used in the process of impairment of placements in order to rank the level of risk and to show the real value of the receivables. Internal rating system is subject to regular audit and improvement.

In order to adequately and efficiently manage the risks they are exposed to in their operations, the Parent bank and Group members also respect the principles prescribed by the regulations of their Central Banks, which require the classification of each placements on the basis of the prescribed framework and the calculation of the reserve for estimated losses. Since both the parent Bank and its subsidiaries within the Komercijalna Banka Group became members of the NLB Group in 2021, the process of harmonizing the internal rating system with the corresponding system at the level of the NLB Group has begun, which will be subject to further improvements in the next period.

Credit risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile, or maintaining an acceptable level of quality of the Group's loan portfolio.

The basic techniques of credit risk mitigation are:

- Exposure Limits - concentration risk,
- Diversification of investments,
- Security instruments.

Exposure limits based on a single debtor are based on an assessment of the debtor's creditworthiness, and exposure limits at the portfolio level are focused on the concentration limit of exposure in the portfolio. Members of the Group continuously control the movement of credit risk within a defined risk profile.

The concentration risk includes: large exposures (exposure to one person or group of related persons and persons associated with the Group), exposure groups with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, credit protection instruments.

The Group monitors exposure to defined limits with the same or similar risk factors and, depending on the general economic trends, trends in particular activities and geographical areas, the values set forth in the Business Plan of the Group members, regularly reviews the defined limits and proposes redefinition of these in the event of a change in risk factors.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

By the Decision on risk concentration management based on the exposure of the bank to certain types of 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 retail sector of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

Monitoring of quality of placements at the individual debtor level is primarily based on providing up-to-date information on financial condition and creditworthiness of the debtor and the market value of collateral, while monitoring credit risk at the portfolio level is done by identifying changes at the level of client groups of a certain level of risk, required reserves for expected and unexpected losses, in order to determine and manage the condition and quality of assets.

Credit risk control implies the process of continuous monitoring of operations with a defined system of limits, especially when exposure to credit risk tends to the upper limit of the defined risk profile, especially when introducing new business products and activities.

In order to protect against the risk of non-fulfilment of liabilities in dealing with clients, the Group members take the following measures for regulating receivables: extension of the deadline, restructuring, settlement, takeover of collateral for the collection of receivables, conclusion of a contract with the interested third party, initiation of court proceedings and other measures.

If the measures taken to regulate the placements, i.e. the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the receivables in full, a proposal for the permanent write-off of the remaining receivables or transfer from the balance sheet to the off-balance sheet is initiated.

Group, besides balance sheet exposure, also has an off-balance sheet exposure (payable and performance guarantees, guarantees, letters of credit) on the basis of which it has a potential obligation to make payments on behalf of third parties. For off-balance sheet exposure, the Group members use the same control processes and procedures that are used for credit risk, which arises on the basis of balance sheet exposures .

The credit risk reporting includes the internal and external reporting system, which is implemented according to the established dynamics in accordance with the defined reporting system:

- Members of the Group report to the Parent bank on a monthly basis;
- The Parent bank reports on a consolidated basis, semi-annually and annually.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

IFRS 9 Financial instruments

The Group continuously applies IFRS 9. In accordance with IFRS 9, the financial assets can be classified and measured as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI[1] criterion;
- 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).

Since the Parent Bank and its subsidiaries are part of the Komercjalna Banka Group became a member of the NLB Group at the end of the year, during 2021 the process of harmonizing the impairment methodology with the established rules at the level of the banking group began. In 2021, the values of hair cut for individual impairment of placements were harmonized, the threshold of material significance for impairment of NPE clients of natural persons was changed (increased from 2.5 million dinars to 50,000 euros), the calculation of impairment for placements secured by the guarantee of the Republic of Serbia was changed, the PD for the calculation of the impairment of securities of the Republic of Serbia was changed and the formula for the application of LGD was changed. Also, the use of monthly PD instead of annual, using exposure to monthly amortization plans, included the impact of macroeconomic variables on the value of LGD secured and LGD unsecured, tested the value of hair cut with the historical realization of Bank collateral and adjusted hair cut these where there were deviations.

The Group's business model – part related to corporate and retail lending, and corporate bonds 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 Group 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 by 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 measured at fair value through other comprehensive income.

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

Identification of problematic and restructured receivables

Members of the Group monitor the quality of the portfolio based on identifying and analysing early warning signals from clients. Warning signals are monitored on a regular basis and on the basis of their analysis, clients are classified as Standard, Potentially risky (Watch List) and NPL clients (clients with problematic receivables).

In accordance with the application of IFRS 9, starting from January 1, 2018, The Group also introduced impairment stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients ranked as stage 1, clients identifying credit risk increase (Watch List clients, days past due from 31 days to 90 days) are ranked as stage 2, and NPL clients rank as stage 3. Impairment allowances for Stage 1 and Stage 2 clients are calculated on collective basis, while for Stage 3 clients, with the fulfilment of the criteria of material significance, impairment is calculated on individual basis. NPL clients at stage 3, with less material exposure, are impaired on a group basis, while respecting the requirements of IFRS 9 for at least two collection scenarios.

[1] Solely Payments of Principal and Interest (SPPI)

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Additionally, due to the newly-formed situation caused by the COVID-19 pandemic, for clients classified as Stage 1 and 2, an additional protective layer of impairment has been introduced, with an increase in the number of clients classified as Stage 2, as a result of the analysis of significance of the increase in credit risk of individual clients in current circumstances.

Restructured unproblematic clients are classified as potentially risky clients, that is, to Stage 2 category, while restructured problematic are classified as problematic clients, and are categorized into Stage 3 .

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic receivables without prior identification of clients as potentially risky and without implementing measures to prevent the occurrence of risky placements, i.e. mitigating and reducing credit risk through the implementation of an adequate strategy and action plans. Potentially risky clients are more closely monitored than Standard clients, and if further credit risk is identified, clients are reclassified to category of problematic receivables.

Problematic receivables include all receivables that have more than 90 past due days, for any material liability to the Bank, its parent or subordinated companies, receivables in which it is estimated on the basis of the financial condition that the debtor will not be able to settle its obligations in full without taking into account the possibility of the realization of credit protection instruments (regardless of whether they are late in settling liabilities), receivables for which the amount of the impairment was determined on an individual basis. Problems are also deemed to arise from: the cessation of the recording of interest income, fees and charges in the income statement, specific adjustments for credit risk that are calculated due to significant deterioration of credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, restructuring receivables made due to the financial difficulties of the debtor, as well as filing a motion for initiating bankruptcy proceedings against the debtor. In the last quarter of 2021, the Bank introduced two new criteria for individuals (deceased and lost their jobs) default status (stage 3 and NPL status), for placements that are not over 90 days late. Problematic receivables are all receivables from the debtor, if one receivable is classified as problematic receivable.

Restructuring of receivable is the approval, due to the financial difficulties of the debtor, the concessions in connection with the repayment of individual receivable that would not be approved to the debtor if he were not in such difficulties, irrespective of whether there are any due liabilities, whether the receivable was impaired and whether it was in the status of default. Restructuring is carried out in one of the following ways: by changing the conditions under which the receivable was originated, especially if the subsequent contractual terms of repayment are more favourable than originally agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. Such circumstances are often called in practice ‘forbearance’. In addition, the category of restructured receivables also includes receivables in which:

- changes in the contractual conditions for repayment of problematic receivables or which, in the absence of the above mentioned changes, would be classified as problematic receivables,
- a change in the contractual conditions for the repayment of receivables leading to total or partial write-off in a material amount,
- the Group members activated the contractual restructuring clauses on the basis of which the terms of repayment change due to occurrence of certain events (embedded clauses) against the debtor from which the receivable has already been classified into a group of problematic receivables or would have been so classified if those clauses were not activated,

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

- if the debtor, at the same time as the new receivable was approved (or in the short period before or after that approval), paid on the basis of another receivable of the Group (or other legal entity under which the receivable was transferred to that debtor), which has been classified or fulfilled conditions to be classified in a group of problematic ones or, in the absence of a new receivable, would be classified in the said group, that is, fulfil those conditions.

In accordance with the IFRS 9 requirements, any restructuring of receivables due to financial difficulties is considered as a modified or altered financial asset.

Modifications that result in the derecognition of the old financial asset and the initial recognition of the new one, which were motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as "POCI" purchased or originated credit-impaired, initially valued at fair value. At the time of initial recognition, they have no impairment, but it is necessary to include the expected credit losses over the life of the asset in the calculation of the effective interest rate.

Consequently, the Group includes initial expected credit losses in the assessment of cash flows when calculating the credit-adjusted effective interest rate of a financial asset that is deemed to have been impaired at the time of initial recognition. Also, for the purpose of calculating impairment, these assets will remain at stage 3 for the entire period of time.

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.

Derecognition leads to a permanent gain or loss recognized in the income statement and is equal to the difference between the amortized cost of an old financial asset and the fair value of a new financial asset deducted for the amount of expected credit losses recognized as impairment on a new financial asset.

In each change of credit conditions, in placements that are not in the status of problematic (PL) clients, as with bad (NPL) clients, the group calculates 10% test in order to determine whether it is a significant or less significant modification.

The Group members in their system logs every modification of the asset, regardless of whether it is a less or more significant modification, and whether the modification is caused by the change of market conditions in good (PL) clients or caused by problems in the (NPL) clients.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Members of the Group regularly follow the measures taken to restructure risky placements and control the timeliness of undertaking these measures. Monitoring of the measures taken, ie realization of them, such as, for example, settlement of matured liabilities is done on a daily basis. The monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of the provision of monitoring the overall performance of strategies towards debtors are the key points of the mentioned monitoring.

Restructured receivable classified in the group of problematic receivable of a member of the Group after one year from the date of its restructuring are classified into a group of receivables that are not considered problematic if the following conditions are met:

- the amount of impairment for restructured receivable has not been determined and the status of default has not occurred;
- in the last 12 months, payments were made in due time or with a delay not exceeding 30 days, in accordance with the changed terms of repayment;
- Based on the analysis of the financial condition, ie the creditworthiness of the borrower, it was estimated that the borrower will be able to settle the liabilities in full in accordance with the changed terms of repayment.

Risk of asset quality change

During 2021, the process of harmonizing the internal rating system with the corresponding system at the level of the NLB Group began, which will be subject to additional improvements in the coming period. The quality of the Group's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the debtor. The rating scale contains five risk categories, divided into 19 sub-categories. Different exposures to the same debtor define the same rating category, regardless of the specificity of the different types of loans.

The Group uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities. A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Group (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitored (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4D, 4DD, and 5). Risk Category 4 is divided into three 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 Group protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Risk of asset quality change – impairment of assets

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the Group's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the potential liabilities.

Impairment of placements and provisions are made only when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, difficulties in the cash flows of the debtor (financial difficulties), decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that, realistically, the loan will be settled from these assets.

The Group members assess the impairment of receivables on a group and on a single basis.

Individual and Group Assessment at Stage 3

Group members estimate impairment allowance for each individually significant placement with default status (risky placement, under a risk category 4D, 4DD and 5 according to the internal rating system), i.e. placements that are classified in stage 3 in accordance with IFRS 9. For this purpose, financial position of the loan beneficiary is taken into account, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collaterals and the certainty of fulfilment of the client's obligations towards the members of the Group, a new assessment of the impairment of the placements is made.

The materiality threshold of a member of the Group is determined on the basis of an analysis of the value structure of the portfolio by types of clients and products.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Individual assessment

Objective evidence that indicates the need for impairment of placements is considered to be:

- 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-fulfilment of other contractual provisions;
- when the members of the Group , due to the financial difficulties of the borrower, substantially change the terms of repayment of receivables in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) etc.

Evidence can be documented by analysis in the Watch process, information on the increased level of risk of the debtor.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the 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 assets and the present value of the estimated future cash flows, whereby the Group recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Group on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

For a group of smaller material receivables that are located at 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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 estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the corporate sector and by rating groups by type of placements in the retail sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incurred credit loss in accordance with IAS 39, the principle of future expected credit loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of 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 Group 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 Group calculates the impairment charge based on the expected credit losses for the entire life of the instrument.

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

All financial instruments in which significant increase in credit risk has been occured are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the entire life of the instrument. In addition to qualitative and quantitative criteria for the classification to Stage 2, due to the conditions caused by the COVID-19 pandemic, during 2021 the Group has reclassified a significant number of clients from industries which are affected by the COVID-19 pandemic the most (catering, tourism, transport ...) to Stage 2 for the purpose of preventive action and a realistic view of impairment, given the possible negative consequences of the COVID-19 pandemic on the business of clients from these activities.. This was conducted through an structural analysis of portfolio by activities, as well as by the analysis of individual clients of legal entities.

All clients with exposure above the defined level, who operate in activities that are estimated to be most exposed to the negative effects of the COVID-19 pandemic, were analyzed. All clients estimated to be, or could be, exposed to the effects of the COVID-19 pandemic, even though they do not have previously defined criteria for transfer to stage 2 in accordance with IFRS 9, are immediately classified in stage 2. Also, an analysis of clients from the segment of the population who are employed in the non-governmental and non-public sector and who are not pensioners is performed. If the absence of earnings has been identified for the mentioned clients, or the same has been reduced by the amount above the defined level, the transfer of such clients to stage 2 has been performed. Consequently, impairment for the entire loan period has been calculated for the mentioned clients.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment (continued)

The Group 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 2021, Group members have improved the Methodology for Assessing Impairment of Balance Sheet Assets and Probable Loss on Off-Balance Sheet Items in the part of possibility of calculating and allocating additional protection layer of impairment, or elaboration and application of several possible scenarios, in order to adequately include the estimated effects of COVID-19 virus pandemic on credit risk impairment.

The Group calculates the impairment losses on debt securities measured at fair value through other comprehensive income (FVOCI), as the accumulated impairment loss, which also affects the income statement. However, expected credit losses do not reduce the amount of gross financial assets in the balance sheet.

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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 Group 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-fulfilment 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 fulfil obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Group is still exposed. Based on historical data, the group 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 Group 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.

For the purpose of including the forward looking component, the Group includes three scenarios of the movement of macroeconomic variables (optimistic, realistic and pessimistic) when calculating the Beta factor value, after which the weighting is performed with the probability of the anticipated realization of the above scenarios, in order to obtain the final Beta Factor that contains all three scenarios (optimistic, realistic, pessimistic).

Macroeconomic factors used in the impairment process

In defining macroeconomic assumptions, the Bank uses a set of different relevant external sources, as well as internal prices. In order to determine the share of each of the scenarios for the purposes of calculating impairment, the positive and negative trends in the previous period (quarterly) of each of the variants for which the status is important to meet were considered.

In 2021, the recovery of the economy is noticeable. Real growth of gross domestic product, according to preliminary estimates of the Republic Bureau of Statistics in 2021, amounted to 7.5%. Observed by activities, compared to the previous year, the highest real growth and significant recovery was recorded in the sectors most affected in 2020 due to the Covid virus pandemic:

- tourist nights (29.7% compared to minus 38.4% in 2020)
- wholesale (22.0% compared to minus 4.9% in 2020)
- traffic (39.9% compared to minus 36.0% in 2020)
- catering (74.2% compared to minus 25.8% in 2020)

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Macroeconomic factors used in the impairment process (continued)

Industrial production in the Republic of Serbia in 2021 is higher by 6.3% compared to 2020, with:

- growth in 22 areas (participation in the structure of industrial production - 89%),
- decline in 7 areas (participation in the structure of industrial production - 11%).

Observed by sectors, the biggest impact on the increase in industrial production in 2021, compared to 2020, had the processing industry - growth of 5.5%, thanks to growth in the branches: Production of coke and petroleum products, Manufacture of other transport equipment, Manufacture of electrical equipment and Manufacture of other machinery and equipment nec. In addition to the mentioned branches of the processing industry, the largest contribution to the growth of total industrial production was made in the mining sector - a growth of 27.6% in the branch of metal ore exploitation.

Based on the projection of the National Bank of Serbia, economic activity is expected to grow by 4-5% in 2022, according to the latest available data, which will be significantly driven by economic recovery ie. private sector investment, government investment, but also private consumption growth, which is in line with the projections of real GDP growth used by the Bank.

According to the data of the National Employment Service, the number of unemployed persons during the first two quarters of 2021 increased compared to the same period last year, unlike the second half of the year when unemployment began to decline. In December 2021, compared to December 2020, the number of unemployed persons decreased by 13,783, or 2.8%. The unemployment rate, according to the Labor Force Survey, was 10.5% in the third quarter of 2021, which is 0.7 percentage points. more compared to the same period last year. During 2022, a recovery in the labor market is expected.

Year-on-year inflation in December 2021, compared to the same month last year, was 7.9%, while average annual inflation was 4%. Stronger growth in year-on-year inflation during 2021 is the result of the predominantly low base from the previous year and significant growth in oil prices due to the recovery from the pandemic, but also in part due to rising prices of primary agricultural products. By the end of 2022, it is expected to return to the target limits.

BELIBOR (BELIBOR - Belgrade Interbank Offered Rate) is the reference interest rate determined on the Panel of Banks, on the Serbian interbank market. The National Bank of Serbia did not change the reference interest rate during 2021. On the other hand, the National Bank of Serbia reduces the degree of monetary policy expansion from October 2021, increasing the average weighted interest rates on reverse repo auctions, which withdraw excess liquidity from the banking system in a week, as well as the percentage of dinar liquidity surplus.

Restrictive monetary policy has had an impact on the movement of the BELIBOR rate, which has been showing continuous growth since October. Further tightening of monetary conditions is expected, ie continued growth of BELIBOR rates.

The EURIBOR (EURIBOR - Euro Interbank Offered Rate) rate in 2021 recorded significantly lower volatility compared to 2020. In 2021, the European Central Bank did not change the reference interest rate (0.00%), as well as the rates on credit (0.25%) and deposit facilities (-0.50%). The future movement of EURIBOR largely depends on the policy of the European Central Bank in the coming period, ie the extent to which an expansionary monetary policy will be pursued.

In December 2021, the European Bank decided to complete the Central Bond Purchase Program (PEPP) by the end of March 2022, with the reinvestment period continuing at least until the end of 2024. from the zone of negative rates is not expected before 2024.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Macroeconomic factors used in the impairment process (continued)

Macroeconomic factors are shown in detail, which showed statistically based relationships with default rates, and consequently with expected credit losses with projected values used in each of the three scenarios (realistic, pessimistic and optimistic).

Projection of macroeconomic factors as at December 31, 2021

Macroeconomic factor	ECL scenario	2022	2023	2024
Industrial production index				
	Optimistic scenario	110	112	113
	Realistic scenario	106	108	109
	Pessimistic scenario	98	100	101
Six-month Euribor (%)				
	Optimistic scenario	(0.25)	(0.24)	(0.23)
	Realistic scenario	(0.15)	(0.14)	(0.13)
	Pessimistic scenario	0.06	0.07	0.08
Quarterly Belibor (%)				
	Optimistic scenario	0.69	0.84	0.99
	Realistic scenario	1.73	1.88	2.03
	Pessimistic scenario	3.80	3.95	4.10
Number of unemployed persons (in thousands)				
	Optimistic scenario	463	442	421
	Realistic scenario	530	509	489
	Pessimistic scenario	665	644	623

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Projection of macroeconomic factors as at 31 December 2021

Macroeconomic factor	ECL scenario	2022	2023	2024
Gross domestic product (%)				
	Optimistic scenario	5.6	5.9	5.9
	Realistic scenario	4.7	4.5	3.9
	Pessimistic scenario	3.0	1.9	1.0
Year-on-year Inflation (%)				
	Optimistic scenario	3.6	3.7	4.0
	Realistic scenario	2.7	2.6	2.6
	Pessimistic scenario	1.5	1.0	0.6
Unemployment rate (%)				
	Optimistic scenario	9.4	6.8	5.1
	Realistic scenario	9.5	7.4	6.0
	Pessimistic scenario	9.9	8.5	8.1

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Calculation of credit risk impairment for stages 1 and 2

To calculate impairment for Stage 1, the Group uses one-year PDs recalculated on a monthly basis 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 Group 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 which come down to a monthly level. 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, i.e. the probability of default for the entire life of the financial instrument.

The values of the PD parameter are updated once a year on May 31 and more often if necessary

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Calculation of credit risk impairment for stages 1 and 2 (continued)

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 Group, 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 Group 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 Group takes into account all internally available collaterals where there is an estimate of the probability of collectability.

Starting from December 31, 2021, in the calculation of LGD unsecured and LGD secured, the Bank included the influence of macroeconomic factors in the next three years, taking into account three scenarios (optimistic, realistic and pessimistic).

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 Group. 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 Group uses a different method of calculating impairment. The Group 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 of financial instruments of the state, its bodies, central banks and financial institutions, it relies on defined estimates based on estimates by external rating agencies. 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Calculation of credit risk impairment for stages 1 and 2 (continued)

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.

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liability and the borrower is classified at stage 3. Also, for stages 1 and 2, the Group 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 Group reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Group 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 Group uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Group's members.

For unused commitments for which the Group has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the Group 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 (collateral)

In order to protect against exposure to credit risk, the most common practice that the Group members use, in addition to regular monitoring of clients' operations, is to obtain security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment of the other counterparty.

As standard security instruments, the Group members provide contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, other collaterals can be contracted:

- For commercial loans or corporate loans and loans for small businesses - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For retail loans - mortgages on real estate, deposits, guarantees of a solidary debtor, insurance of the National Corporation for securing housing loans at the parent Bank, and others;
- For borrowed securities and repurchase agreements - money or securities.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Means of protection against credit risk (collateral) (continued)

When assessing real estate or mortgages on movable property, members of the Group require a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Group, and the policies are vinculated for the benefit of the Group.

In order to protect against the change in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Group protects against potential losses due to inability to collect collateral.

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. Haircut brings down the estimated market value of each collateral instrument to the expected value that will be collected by its realization in the future, taking into account the volatility of market value, the possibility of realization and cash outflows based on activation and sales costs (court fees, tax costs that fall under the burden of the seller, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

Members of the Group pay attention to the regular valuation of collaterals. For non-risk placements (standard clients) - stage 1 and clients on the Watch list - stage 2, mortgages on residential and business properties are assessed at least once in three years by an authorized appraiser. For risky placements (NPE) - stage 3, mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

Regular monitoring of the value of real estate implies checking the value of the real estate based on available data and information, comparing the values of the real estate values with the values of the value on the market of the member countries of the Group (realized sales, supply and demand) by the regions specified in the collateral catalogue, using the statistical model, etc. For all business real estate, the Group conducts a check of value at least once a year, and for residential and other real estate at least once in three years.

The value of collateral and the trend of movement is monitored and updated by the members of the Group in order to minimize the potential risk of unrealistic estimation and, if necessary, may require additional collateral in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

The total exposure to credit risk as at December 31, 2021 and 2020 is shown 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).

Total exposure to credit risk before collateral and other improvements

Total exposure to credit risk

In thousands of RSD

	Year ended December 31, 2021		2020	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**509,802,624**	**489,468,223**	**525,971,325**	**500,295,540**
Cash and balances with the central bank	82,055,481	82,055,481	86,892,070	86,892,070
Loans and advances to banks and other financial institutions	29,151,602	29,130,701	18,869,773	18,865,483
Loans and receivables from customers	218,173,938	209,044,943	231,621,844	219,433,627
Financial assets (securities and derivatives)	149,752,261	149,744,019	158,442,869	158,438,656
Other assets	6,586,667	5,433,093	9,806,720	6,806,000
Assets	24,082,675	14,059,986	20,338,049	9,859,704
II. Off-balance sheet items	**61,730,331**	**61,521,512**	**44,071,806**	**43,803,018**
Payable guarantees	7,400,757	7,331,132	5,088,108	5,008,735
Performance guarantees	10,882,641	10,832,350	7,131,239	7,057,496
Irrevocable liabilities	43,413,347	43,344,379	31,625,243	31,552,723
Other	33,586	13,652	227,216	184,064
Total (I+II)	**571,532,955**	**550,989,735**	**570,043,131**	**544,098,558**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in loans and receivables to customers by level of risk during 2021

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
As of December 31, 2020	**171,917,691**	**11,095,822**	**17,676,694**	**200,690,207**
New receivables	63,499,170	533,857	237,002	64,270,029
Decrease/collection of receivables	(22,871,762)	(1,068,984)	(5,511,388)	(29,452,134)
Transfer to stage 1	-	(5,942,875)	(210,211)	(6,153,086)
Transfer to stage 2	(2,305,893)	-	(488,829)	(2,794,722)
Transfer to stage 3	(958,066)	(582,465)	-	(1,540,531)
Transfer from other stages	6,153,086	2,794,722	1,540,531	10,488,339
Other changes	(15,487,692)	(416,495)	(1,429,977)	(17,334,164)
As of December 31, 2021	**199,946,534**	**6,413,582**	**11,813,822**	**218,173,938**

Changes in impairment allowance of loans and receivables to customers by level of risk during 2021

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
31.12.2020	**802,035**	**212,915**	**10,379,168**	**11,394,118**
New receivables	626,347	15,305	157,605	799,257
Decrease/collection of receivables	(118,193)	(36,513)	(4,449,371)	(4,604,077)
Transfer to stage 1	-	(83,090)	(86,228)	(169,318)
Transfer to stage 2	(19,260)	-	(40,619)	(59,879)
Transfer to stage 3	(5,459)	(19,060)	-	(24,519)
Transfer from other stages	169,319	59,879	24,519	253,717
Other changes	131,332	146,429	1,261,935	1,539,696
As of December 31, 2021	**1,586,121**	**295,865**	**7,247,009**	**9,128,995**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

During 2021, transitions of exposures by Stages are consequence of regular business transactions:

- transition to Stage 1 from Stage 2 and 3 is a consequence of the improvement of performance and financial indicators of business clients (transition from level 2 to 1), as well as the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1, is mostly due to the deterioration of business with individual clients in the corporate sector changes in the methodology in the area of identifying clients for the Watch list within the harmonization process with the NLB Group, as well as the process of harmonization with the NLB Group in the part of changing the NLB rating for 3 subcategories from the moment of approval, ie from March 31, 2021 when the Bank first introduced the NLB rating;
- Transition to Stage 3 from Stage 1 and 2 is a consequence of increased risk of clients, mostly in the micro segment, agriculture and individuals, as well as the application of continuous arrears and NLB rating scale, where clients who receive grades D, DF and E enter stage 3. Reduction of receivables in stage 3, mostly due to the transfer of 100% of impaired receivables to off-balance sheet records, as well as the regulation of risky receivables (collection of collateral and regular business of clients). The mentioned transition from stage 1 and 2 to stage 3 was accompanied by the movement of value adjustment, which significantly increased after entering stage 3. During the year, receivables from stage 1 were in stage 2 before moving to stage 3.
- The increase in cost of risk in other changes in stage 1, and stage 2, mostly refers to the change of the Methodology in accordance with the harmonization process with NLB Group, in the part of PD calculation and new values of Beta factor. In addition to the above, the increase of cost of risk in Stage 2 also affected the withdrawal of previously approved placements by Stage 2 clients.
- The increase in cost of risk in other changes in stage 3 is a consequence of the change in methodology in the part of the value of hair cut for collateral, which was increased in accordance with the harmonization process with NLB Group, as well as the increase in cost of risk that occurred after the client's transition from stage 1 ,stage 2 and stage 3, under the already clarified assumptions.

.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In thousands of RSD

As of December 31, 2021	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	51,717,845	281,167	882,434	52,881,446	39,662	1,980	551,661	593,303	52,288,142
Cash Loans	39,752,894	307,923	556,759	40,617,576	227,845	16,431	440,670	684,946	39,932,630
Agricultural Loans	12,152,637	157,646	263,810	12,574,093	124,004	5,718	171,468	301,190	12,272,903
Other Loans	3,939,523	50,199	199,853	4,189,575	24,832	2,541	180,864	208,237	3,981,338
Micro Business	9,305,709	1,379,944	418,004	11,103,657	138,159	24,767	201,411	364,337	10,739,320
Total retail	**116,868,608**	**2,176,879**	**2,320,860**	**121,366,347**	**554,502**	**51,437**	**1,546,074**	**2,152,013**	**119,214,334**
Large corporate clients	38,090,634	2,686,374	4,173,753	44,950,761	479,645	181,813	2,746,853	3,408,311	41,542,450
Middle corporate clients	12,840,354	587,428	249,519	13,677,301	99,912	3,927	160,001	263,840	13,413,461
Small corporate clients	4,083,048	357,777	498,639	4,939,464	46,513	3,879	160,267	210,659	4,728,805
State owned clients	22,630,517	605,124	3,053,533	26,289,174	300,909	54,809	1,123,741	1,479,459	24,809,715
Other	5,433,373	-	1,517,518	6,950,891	104,640	-	1,510,073	1,614,713	5,336,178
Total corporate	**83,077,926**	**4,236,703**	**9,492,962**	**96,807,591**	**1,031,619**	**244,428**	**5,700,935**	**6,976,982**	**89,830,609**
Total	**199,946,534**	**6,413,582**	**11,813,822**	**218,173,938**	**1,586,121**	**295,865**	**7,247,009**	**9,128,995**	**209,044,943**
Due from banks	**29,151,602**	**-**	**-**	**29,151,602**	**20,901**	**-**	**-**	**20,901**	**29,130,701**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In thousands of RSD

As of December 31, 2020	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing loans	45,177,028	688,692	905,200	46,770,920	16,848	4,057	416,440	437,345	46,333,575
Cash loans	37,136,903	637,940	277,545	38,052,388	121,729	32,729	223,138	377,596	37,674,792
Agriculture Loans	11,475,146	222,594	282,684	11,980,424	92,244	21,850	122,071	236,165	11,744,259
Other Loans	4,277,483	82,170	198,889	4,558,542	23,469	4,846	178,465	206,780	4,351,762
Micro business	8,318,090	1,429,708	440,735	10,188,533	115,242	38,180	219,625	373,047	9,815,486
Total retail	**106,384,650**	**3,061,104**	**2,105,053**	**111,550,807**	**369,532**	**101,662**	**1,159,739**	**1,630,933**	**109,919,874**
Large corporate clients	24,164,279	6,231,195	6,429,321	36,824,795	72,656	62,304	3,675,082	3,810,042	33,014,753
Middle corporate clients	7,876,894	740,097	531,659	9,148,650	41,383	6,090	194,402	241,875	8,906,775
Small corporate clients	2,959,089	298,297	823,753	4,081,139	27,425	4,937	393,345	425,707	3,655,432
State owned clients	21,815,385	764,054	3,588,648	26,168,087	70,593	37,864	1,087,247	1,195,704	24,972,383
Other	8,717,394	1,075	4,198,260	12,916,729	220,446	58	3,869,353	4,089,857	8,826,872
Total clients	**65,533,041**	**8,034,718**	**15,571,641**	**89,139,400**	**432,503**	**111,253**	**9,219,429**	**9,763,185**	**79,376,215**
Total	**171,917,691**	**11,095,822**	**17,676,694**	**200,690,207**	**802,035**	**212,915**	**10,379,168**	**11,394,118**	**189,296,089**
Due from banks	**18,146,238**	**-**	**-**	**18,146,238**	**4,168**	**-**	**-**	**4,168**	**18,142,070**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Changes in impairment allowance of receivables in the Balance Sheet

In thousands of RSD

	As of December 31, 2020	Increase in impairment allowance	Reversal of impairment allowance	Other changes	As of December 31, 2021
Total retail	1,630,933	3,221,861	(2,156,325)	(544,456)	2.152.013
Total corporate	9,763,185	4,700,895	(2,681,253)	(4,805,845)	6.976.982
Total	**11,394,118**	**7,922,756**	**(4,837,578)**	**(5,350,301)**	**9.128.995**
Due from banks	**4,168**	**50,262**	**(33,667)**	**138**	**20,901**

** Other changes relate to the write-off of entirely impaired receivables from balance sheet to off-balance sheet records, exchange rate differences and other changes.*

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Problematic loans and receivables – stage 3

Problematic loans and receivables are those loans and receivables for which the Group 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 – stage 1 and stage 2 (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.

Impairment on a group basis is based on expected credit loss in accordance with the probability of default in the next 12 months (receivables in stage 1), except when there is a significant deterioration in credit risk compared to the moment of initial recognition, when credit losses are assessed on the basis probabilities of default for the period until the end of the life of the instrument (receivables in stage 2). Appreciating the specifics of doing business with clients, migration for business clients, micro business, and the population by types of products are especially determined.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Receivables by days past due, **stage 1 and 2**

In thousands of RSD

	Stage 1						Stage 2					
As of December 31, 2021	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	51,575,978	141,867	-	-	-	**51,717,845**	232,743	3,166	42,530	2,727	-	**281,166**
Cash Loans	37,047,151	2,705,743	-	-	-	**39,752,894**	116,090	80,544	69,858	41,432	-	**307,924**
Agricultural Loans	11,980,655	171,982	-	-	-	**12,152,637**	94,462	7,358	41,340	14,486	-	**157,646**
Other Loans	3,628,886	310,637	-	-	-	**3,939,523**	26,426	8,153	9,760	5,860	-	**50,199**
Micro Business	8,726,237	579,472	-	-	-	**9,305,709**	1,125,515	191,711	54,256	8,462	-	**1,379,944**
Total retail	**112,958,907**	**3,909,701**	**-**	**-**	**-**	**116,868,608**	**1,595,236**	**290,932**	**217,744**	**72,967**	**-**	**2,176,879**
Large corporate clients	38,087,679	2,955	-	-	-	**38,090,634**	2,686,374	-	-	-	-	**2,686,374**
Middle corporate clients	12,292,788	547,566	-	-	-	**12,840,354**	526,554	60,874	-	-	-	**587,428**
Small corporate clients	3,976,815	106,233	-	-	-	**4,083,048**	159,628	195,245	2,904	-	-	**357,777**
State owned clients	22,302,664	327,853	-	-	-	**22,630,517**	470,690	134,434	-	-	-	**605,124**
Other	5,433,373	-	-	-	-	**5,433,373**	-	-	-	-	-	**-**
Corporate clients	**82,093,319**	**984,607**	**-**	**-**	**-**	**83,077,926**	**3,843,246**	**390,553**	**2,904**	**-**	**-**	**4,236,703**
Total	**195,052,226**	**4,894,308**	**-**	**-**	**-**	**199,946,534**	**5,438,482**	**681,485**	**220,648**	**72,967**	**-**	**6,413,582**
Out of which: restructured							161,980	101,468	1,998	-	-	**265,446**
Due from banks	**20,744,515**	**8,406,767**	**-**	**-**	**-**	**29,151,602**	**-**	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Receivables by days past due, **stage 1 and 2**

In thousands of RSD

	Stage 1						Stage 2					
As of December 31, 2020	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	45,133,418	43,610	-	-	-	45,177,028	551,533	3,053	88,293	45,813	-	688,692
Cash Loans	34,256,339	2,880,564	-	-	-	37,136,903	165,285	118,593	248,709	105,353	-	637,940
Agricultural Loans	11,219,296	255,850	-	-	-	11,475,146	68,022	20,534	82,356	51,682	-	222,594
Other Loans	3,970,234	307,249	-	-	-	4,277,483	33,645	10,294	27,028	11,203	-	82,170
Micro business	7,925,617	392,473	-	-	-	8,318,090	1,042,963	302,015	73,106	11,624	-	1,429,708
Total retail	**102,504,904**	**3,879,746**	**-**	**-**	**-**	**106,384,650**	**1,861,448**	**454,489**	**519,492**	**225,675**	**-**	**3,061,104**
Large corporate clients	24,094,092	70,187	-	-	-	24,164,279	6,138,683	92,512	-	-	-	6,231,195
Middle corporate clients	7,773,498	103,396	-	-	-	7,876,894	629,973	107,051	3,073	-	-	740,097
Small corporate clients	2,864,269	94,820	-	-	-	2,959,089	225,281	30,505	42,511	-	-	298,297
State owned clients	21,439,880	375,505	-	-	-	21,815,385	595,476	61,171	107,407	-	-	764,054
Other	8,717,394	0	-	-	-	8,717,394	1,075	-	-	-	-	1,075
Corporate clients	**64,889,133**	**643,908**	**-**	**-**	**-**	**65,533,041**	**7,590,488**	**291,239**	**152,991**	**-**	**-**	**8,034,718**
Total	**167,394,037**	**4,523,654**	**-**	**-**	**-**	**171,917,691**	**9,451,936**	**745,728**	**672,483**	**225,675**	**-**	**11,095,822**
Out of which: restructured	-	-	-	-	-	-	287,926	24,334	110,022	2,279	-	424,561
Due from banks	**18,146,238**	**-**	-	-	-	**18,146,238**	**-**	**-**	**-**	**-**	-	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Loans and receivables from clients according to the criterion of inclusion in Stage 2

In thousands of RSD

	As of December 31, 2021					As of December 31, 2020				
	Change of IR	**Restructuring**	**Due up to 30 days**	**Other**	**Total**	**Change of IR**	**Restructuring**	**Due up to 30 days**	**Other**	**Total**
Housing Loans	60,444	148,789	23,958	47,976	281,167	28.535	252.908	37.823	369.426	688.692
Cash Loans	6,543	-	72,711	228,669	307,923	3.428	316	88.172	546.024	637.940
Agricultural Loans	38,434	4,456	73,754	41,002	157,646	-	6.138	113.976	102.480	222.594
Other Loans	257	12,880	8,085	28,977	50,199	268	15.371	12.746	53.785	82.170
Micro Businesses	47,102	-	61,518	1,271,324	1,379,944	344.515	-	165.998	919.195	1.429.708
Retail clients	**152,780**	**166,125**	**240,026**	**1,617,948**	**2,176,879**	**376.746**	**274.733**	**418.715**	**1.990.910**	**3.061.104**
Large corporate clients	992,124	-	-	1,694,250	2,686,374	4.641.240	-	-	1.589.955	6.231.195
Middle corporate clients	-	-	-	587,428	587,428	7.498	-	3.073	729.526	740.097
Small corporate clients	-	-	162,801	194,976	357,777	23.756	-	115.073	159.468	298.297
State owned clients	22,839	99,321	-	482,964	605,124	439.346	149.828	184	174.696	764.054
Other		-		-	-	-	-	-	1.075	1.075
Corporate clients	**1,014,963**	**99,321**	**162,801**	**2,959,618**	**4,236,703**	**5.111.840**	**149.828**	**118.330**	**2.654.720**	**8.034.718**
Total	**1,167,743**	**265,446**	**402,827**	**4,577,566**	**6,413,582**	**5.488.586**	**424.561**	**537.045**	**4.645.630**	**11.095.822**
Due from banks				**-**	**-**					**-**

'Other' includes technical and expert signals (in accordance with the process of early identification of potentially risky exposures) (Watch list), as well as impaired creditworthiness of individuals. The change of rating refers to the change of NLB rating for 3 categories from the moment of approval of placement, ie from March 31, 2021 for the existing portfolio.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impairment allowance according to the criterion of inclusion in Stage 2

In thousands of RSD

	As of December 31, 2021					As of December 31, 2020				
	Change of IR	**Restructuring**	**Due up to 30 days**	**Other**	**Total**	**Change of IR**	**Restructuring**	**Due up to 30 days**	**Other**	**Total**
Housing Loans	61	930	895	94	1,980	98	1.524	118	2.317	4.057
Cash Loans	103	-	8,303	8,026	16,432	49	-	13.681	18.999	32.729
Agricultural Loans	400	150	4,298	870	5,718	-	248	15.797	5.805	21.850
Other Loans	2	826	1,138	575	2,541	1	3.393	730	722	4.846
Micro Businesses	308	-	957	23,502	24,767	14.640	-	6.195	17.345	38.180
Retail clients	**874**	**1,907**	**15,590**	**33,067**	**51,438**	**14.788**	**5.165**	**36.521**	**45.188**	**101.662**
Large corporate clients	179,874	-	-	1,940	181,814	60.007	-	-	2.297	62.304
Middle corporate clients	-	-	-	3,927	3,927	455	-	29	5.606	6.090
Small corporate clients	-	-	1,466	2,412	3,878	1.928	-	655	2.354	4.937
State owned clients	379	3,610	-	50,820	54,809	32.907	2.805	1	2.151	37.864
Other				-	-	-	-	-	58	58
Corporate clients	**180,253**	**3,610**	**1,466**	**59,099**	**244,428**	**95.297**	**2.805**	**685**	**12.466**	**111.253**
Total	**181,127**	**5,517**	**17,056**	**92,166**	**295,866**	**110.085**	**7.970**	**37.206**	**57.654**	**212.915**
Due from banks				**-**						**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due ***– Problematic receivables, stage 3***

In thousands of RSD

	Stage 3					
As of December 31, 2021	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	315,972	4,880	23,333	3,818	534,431	**882,434**
Cash Loans	171,327	63,347	25,558	21,592	274,935	**556,759**
Agricultural Loans	77,811	5,360	6,503	1,156	172,980	**263,810**
Other Loans	25,659	4,468	4,417	4,290	161,019	**199,853**
Micro business	168,389	40,395	4,212	7,866	197,142	**418,004**
Total retail	**759,158**	**118,450**	**64,023**	**38,722**	**1,340,507**	**2,320,860**
Large corporate clients	2,275,290	-	-	-	1,898,463	**4,173,753**
Middle corporate clients	141,965	6,860	26,410	-	74,284	**249,519**
Small corporate clients	63,314	-	2,286	-	433,039	**498,639**
State owned clients	2,921,376	-	-	-	132,157	**3,053,533**
Other	216,895	-	-	-	1,300,623	**1,517,518**
Corporate clients	**5,618,840**	**6,860**	**28,696**	**-**	**3,838,566**	**9,492,962**
Total	**6,377,998**	**125,310**	**92,719**	**38,722**	**5,179,073**	**11,813,822**
Out of which: restructured	4,817,948	1,482	31,741	1,049	1,325,318	**6,177,538**
Due from banks						

Receivables with a delay of less than 90 days (mostly in the parent bank) in stage 3 relate to clients who have financial difficulties as a result of the impact of the pandemic caused by the COVID-19 on the decline in business activity and reduction of financial potential to regulate liabilities to the Group and the Group assessed that there is a risk of default until the end of loan repayment.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due ***– Problematic receivables, stage 3***

In thousands of RSD

	Stage 3					
As of December 31, 2020	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	267,714	1,130	71,295	46,172	518,889	**905,200**
Cash Loans	41,801	19,780	15,113	51,643	149,208	**277,545**
Agricultural Loans	48,529	10,887	20,242	11,218	191,808	**282,684**
Other Loans	17,941	2,375	2,224	1,091	175,258	**198,889**
Micro business	33,232	18,287	36,035	19,314	333,867	**440,735**
Total retail	**409,217**	**52,459**	**144,909**	**129,438**	**1,369,030**	**2,105,053**
Large corporate clients	1,111,839	-	303,977	-	5,013,505	**6,429,321**
Middle corporate clients	194,086	-	41,773	4,094	291,706	**531,659**
Small corporate clients	37,004	-	34,525	10,472	741,752	**823,753**
State owned clients	3,418,323	-	-	-	170,325	**3,588,648**
Other	196,673	-	-	-	4,001,587	**4,198,260**
Corporate clients	**4,957,925**	**-**	**380,275**	**14,566**	**10,218,875**	**15,571,641**
Total	**5,367,142**	**52,459**	**525,184**	**144,004**	**11,587,905**	**17,676,694**
Out of which: restructured	4,003,837	5,009	56,271	19,125	5,037,927	**9,122,169**
Due from banks						

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans

In thousands of RSD

As of December 31, 2021	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Impairment allowance stage 3	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**121,366,347**	**2,152,013**	**2,320,860**	**165,776**	**1,546,074**	**1,91%**	**1,836,069**
Housing Loans	52,881,446	593,303	882,434	80,414	551,661	1,67%	882,104
Cash Loans	40,617,576	684,946	556,759	9,077	440,670	1,37%	187,051
Agricultural Loans	12,574,093	301,190	263,810	44,479	171,468	2,10%	253,643
Other Loans	4,189,575	208,237	199,853	10,962	180,864	4,77%	16,532
Micro business	11,103,657	364,337	418,004	20,844	201,411	3,76%	496,739
Corporate clients	**96,807,591**	**6,976,982**	**9,492,962**	**6,011,762**	**5,700,935**	**9,81%**	**7,844,168**
Agriculture	3,163,493	18,747	15,144	-	2,926	0,48%	30,248
Manufacturing industry	16,822,078	1,555,048	2,183,388	2,108,437	1,271,793	12,98%	2,182,839
Electric Energy	5,144,496	67,359	-	-	-	0,00%	-
Construction	15,551,101	693,521	733,092	43,801	613,374	4,71%	738,069
Wholesale and Retail	19,363,305	293,294	83,137	15,912	32,894	0,43%	83,682
Service Activities	15,953,991	1,718,269	3,397,515	2,826,685	1,402,480	21,30%	3,407,376
Real Estate Activities	8,184,243	653,950	1,283,501	963,962	629,126	15,68%	1,295,817
Other	12,624,884	1,976,794	1,797,185	52,965	1,748,342	14,24%	106,137
Total	**218,173,938**	**9,128,995**	**11,813,822**	**6,177,538**	**7,247,009**	**5,41%**	**9,680,237**
Due from banks	**29,151,602**	**20,901**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Participation of problematic receivables, ***stage 3 in total loans***

In thousands of RSD

As of December 31, 2020	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Impairment allowance stage 3	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**111,550,807**	**1,630,933**	**2,105,053**	**340,790**	**1,159,739**	**1,89%**	**1,733,364**
Housing Loans	46,770,920	437,345	905,200	145,700	416,440	1,94%	895,187
Cash Loans	38,052,388	377,596	277,545	5,823	223,138	0,73%	103,692
Agricultural Loans	11,980,424	236,165	282,684	48,649	122,071	2,36%	264,313
Other Loans	4,558,542	206,780	198,889	16,384	178,465	4,36%	18,916
Micro business	10,188,533	373,047	440,735	124,234	219,625	4,33%	451,256
Corporate clients	**89,139,400**	**9,763,185**	**15,571,641**	**8,781,379**	**9,219,429**	**17,47%**	**13,971,723**
Agriculture	2,876,122	13,199	9,002	-	4,928	0,31%	9,170
Manufacturing industry	12,077,559	1,162,333	2,847,426	2,796,569	1,095,828	23,58%	2,846,877
Electric Energy	3,529,051	15,861	-	-	-	0,00%	-
Construction	12,650,343	547,050	669,404	7,057	525,043	5,29%	669,539
Wholesale and Retail	17,314,441	435,322	672,784	503,610	354,573	3,89%	666,399
Service Activities	11,828,689	2,313,040	4,632,020	4,582,130	2,253,170	39,16%	4,631,098
Real Estate Activities	8,092,592	491,452	1,356,389	687,488	474,825	16,76%	1,371,167
Other	20,770,603	4,784,928	5,384,616	204,525	4,511,062	25,92%	3,777,473
Total	**200,690,207**	**11,394,118**	**17,676,694**	**9,122,169**	**10,379,168**	**8,81%**	**15,705,087**
Due from banks	**18,146,238**	**4,168**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Changes in problematic receivables

In thousands of RSD

	Gross as of December 31, 2021	New problematic receivables – stage 3	Decrease in problematic receivables – stage 3	Foreign exchange rate effect	Other changes	Gross as of December 31, 2021	Net as of December 31, 2021
Housing Loans	905,200	400,965	(359,882)	3,114	(66,964)	882,433	330,773
Cash Loans	277,545	572,246	(174,888)	-	(118,144)	556,759	116,088
Agricultural Loans	282,684	173,591	(141,260)	4	(51,208)	263,811	92,343
Other Loans	198,889	96,389	(86,772)	200	(8,853)	199,853	18,988
Micro business	440,735	428,098	(303,841)	5	(146,994)	418,003	216,594
Total retail	**2,105,053**	**1,671,289**	**(1,066,643)**	**3,323**	**(392,163)**	**2,320,859**	**774,786**
Large corporate clients	6,429,321	-	(1,381,173)	102	(874,497)	4,173,753	1,426,900
Middle corporate clients	531,659	52,006	(208,923)	7	(125,230)	249,519	89,517
Small corporate clients	823,753	41,183	(346,337)	7	(19,967)	498,639	338,373
State owned clients	3,588,648	10,436	(482,895)	53	(62,709)	3,053,533	1,929,791
Other	4,198,260	2,619	(2,724,457)	40,286	811	1,517,519	7,446
Corporate clients	**15,571,641**	**106,244**	**(5,143,785)**	**40,455**	**(1,081,592)**	**9,492,963**	**3,792,027**
Total	**17,676,694**	**1,777,533**	**(6,210,428)**	**43,778**	**(1,473,755)**	**11,813,822**	**4,566,813**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The reduction of problem receivables mostly refers to the transfer of 100% of impaired receivables to off-balance sheet records (parent bank and KB Banja Luka), as well as the collection of non-performing placements.
Other changes relate to a partial increase/decrease in the amount of receivables within one lot during the year and mostly relate to partial collection.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Non-problematic receivables (stage 1 and stage 2)

In thousands of RSD

	As of December 31, 2021				As of December 31, 2020			
	Low (IR 1, 2)	Medium and High (IR 3,4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 1, 2)	Total	Value of collaterals
Housing Loans	51,980,174	18,838	51,999,012	51,005,399	45,757,208	108,512	45,865,720	45,451,796
Cash Loans	39,991,948	68,870	40,060,818	9,549,530	37,579,003	195,840	37,774,843	10,494,298
Agricultural Loans	12,277,055	33,228	12,310,283	11,877,066	11,611,627	86,113	11,697,740	11,065,548
Other Loans	3,982,438	7,283	3,989,721	196,778	4,332,597	27,056	4,359,653	206,082
Micro business	10,101,387	584,266	10,685,653	10,606,918	9,247,799	499,999	9,747,798	9,737,277
Total retail	**118,333,002**	**712,485**	**119,045,487**	83,235,691	**108,528,234**	**917,520**	**109,445,754**	**76,955,001**
Large corporate clients	36,644,209	4,132,799	40,777,008	40,842,438	24,713,727	5,681,747	30,395,474	30,401,513
Middle corporate clients	13,410,160	17,623	13,427,783	13,414,845	8,536,154	80,837	8,616,991	8,619,042
Small corporate clients	4,341,002	99,823	4,440,825	4,421,677	3,059,170	198,216	3,257,386	3,243,678
State owned clients	18,090,465	5,145,176	23,235,641	21,739,089	17,249,553	5,329,886	22,579,439	22,742,430
Other	3,523,808	1,909,564	5,433,372	4,222,590	4,404,927	4,313,542	8,718,469	6,899,846
Corporate clients	**76,009,644**	**11,304,985**	**87,314,629**	84,640,639	**57,963,531**	**15,604,228**	**73,567,759**	**71,906,509**
Total	**194,342,646**	**12,017,470**	**206,360,116**	**167,876,330**	**166,491,765**	**16,521,748**	**183,013,513**	**148,861,510**
Due from banks	**29,151,602**	**-**	**29,151,602**	**-**	**18,146,238**	**-**	**18,146,238**	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In thousands of RSD

As of December 31, 2021	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restructured receivables – stage 2	Impairment of restructured receivables – stage 2	Restructured receivables – stage 3	Impairment of restructured receivables – stage 3	Percentage of restructured in total receivables (%)	The amount of collaterals for restructured receivables
Total retail	**121,366,347**	**2,152,013**	**331,901**	**110,280**	**166,125**	**1,907**	**165,776**	**108,373**	**0,27%**	**322,269**
Housing Loans	52,881,446	593,304	229,203	51,560	148,789	930	80,414	50,630	0,43%	229,203
Cash Loans	40,617,576	684,946	9,077	6,390	-	-	9,077	6,390	0,02%	1,426
Agricultural Loans	12,574,093	301,190	48,936	25,828	4,457	150	44,479	25,677	0,39%	48,936
Other Loans	4,189,575	208,236	23,841	10,510	12,879	827	10,962	9,684	0,57%	21,860
Micro business	11,103,657	364,337	20,844	15,992	-	-	20,844	15,992	0,19%	20,844
Corporate clients	**96,807,591**	**6,976,982**	**6,111,083**	**3,221,939**	**99,321**	**3,610**	**6,011,762**	**3,218,329**	**6,31%**	**6,120,716**
Agriculture	3,163,493	18,747	-	-	-	-	-	-	0,00%	-
Manufacturing industry	16,822,078	1,555,048	2,108,437	1,259,470	-	-	2,108,437	1,259,470	12,53%	2,108,437
Electric Energy	5,144,496	67,359	-	-	-	-	-	-	0,00%	-
Construction	15,551,101	693,521	43,801	30,771	-	-	43,801	30,771	0,28%	43,801
Wholesale and Retail	19,363,305	293,294	15,912	13,588	-	-	15,912	13,588	0,08%	15,912
Service Activities	15,953,991	1,718,269	2,826,685	1,319,804			2,826,685	1,319,804	17,72%	2,826,686
Real Estate Activities	8.184.243	653,950	963,962	553,756	-	-	963,962	553,756	11,78%	963,962
Other	12,624,884	1,976,794	152,286	44,550	99,321	3,610	52,965	40,940	1,20%	161,918
Total	**218,173,938**	**9,128,995**	**6,442,984**	**3,332,219**	**265,446**	**5,517**	**6,177,538**	**3,326,702**	**2,95%**	**6,442,985**
Due from banks	**29,151,602**	**20,901**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

As of December 31, 2020	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restructured receivables – stage 2	Impairment of restructured receivables – stage 2	Restructured receivables – stage 3	Impairment of restructured receivables – stage 3	Percentage of restructured in total receivables (%)	The amount of collaterals for restructured receivables
Total retail	**111,550,807**	**1,630,933**	**615,523**	**143,459**	**274,733**	**5,165**	**340,790**	**138,294**	**0,55%**	**608,443**
Housing Loans	46,770,920	437,345	398,608	57,930	252,908	1,524	145,700	56,406	0,85%	398,608
Cash Loans	38,052,388	377,596	6,139	4,564	316	0	5,823	4,564	0,02%	1,095
Agricultural Loans	11,980,424	236,165	54,787	21,111	6,138	248	48,649	20,863	0,46%	54,481
Other Loans	4,558,542	206,780	31,755	17,862	15,371	3,393	16,384	14,469	0,70%	30,025
Micro business	10,188,533	373,047	124,234	41,992	-	-	124,234	41,992	1,22%	124,234
Corporate clients	**89,139,400**	**9,763,185**	**8,931,207**	**4,245,431**	**149,828**	**2,805**	**8,781,379**	**4,242,626**	**10,02%**	**8,931,208**
Agriculture	2,876,122	13,199	-	-	-	-	-	-	0,00%	-
Manufacturing industry	12,077,559	1,162,333	2,796,569	1,095,279	-	-	2,796,569	1,095,279	23,16%	2,796,569
Electric Energy	3,529,051	15,861	-	-	-	-	-	-	0,00%	-
Construction	12,650,343	547,050	7,057	3,516	-	-	7,057	3,516	0,06%	7,057
Wholesale and Retail	17,314,441	435,322	503,610	307,622	-	-	503,610	307,622	2,91%	503,610
Service Activities	11,828,689	2,313,040	4,582,130	2,235,253			4,582,130	2,235,253	38,74%	4,582,130
Real Estate Activities	8.092.592	491,452	711,166	425,806	23,678	107	687,488	425,699	8,79%	711,167
Other	20,770,603	4,784,928	330,675	177,955	126,150	2,698	204,525	175,257	1,59%	330,675
Total	**200,690,207**	**11,394,118**	**9,546,730**	**4,388,890**	**424,561**	**7,970**	**9,122,169**	**4,380,920**	**4,76%**	**9,539,651**
Due from banks	**18,146,238**	**4,168**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousands of RSD

	Gross as of December 31, 2020	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes	Gross as of December 31, 2021	Net as of December 31, 2021
Housing Loans	398,608	-	(154,623)	1,531	(16,313)	229,203	177,643
Cash Loans	6,139	4,456	(1,433)	-	(85)	9,077	2,687
Agricultural Loans	54,786	12,336	(13,483)	1	(4,704)	48,936	23,108
Other Loans	31,755	5,466	(9 ,008)	-	(4,372)	23,841	13,332
Micro business	124,234	-	(103,390)	1	(1)	20,844	4,852
Total retail	615,523	22,258	(281,937)	1,533	(25,475)	331,901	221,622
Large corporate clients	5,296,620	280,916	(1,323,958)	86	(866,111)	3,387,553	1,250,049
Middle corporate clients	384,958	-	(86,120)	5	(94,775)	204,068	66,125
Small corporate clients	171,521	-	(141,127)	-	36,899	67,293	28,375
State owned clients	3,078,108	-	(585,362)	50	(40,627)	2,452,169	1,544,595
Other	-	-	-	-	-	-	-
Corporate clients	8,931,207	280,916	(2,136,567)	141	(964,614)	6,111,083	2,889,144
Total	**9,546,730**	**303,174**	**(2,418,504)**	**1,674**	**(990,089)**	**6,442,984**	**3,110,766**
Due from banks							

The increase in restructured receivables is a consequence of the restructuring of the NPL of the client whose business is endangered by the influence of COVID 19 (catering) in order to relax the client. The decrease in restructured receivables mostly refers to the transfer of 100% of impaired receivables to off-balance sheet records, as well as granting a moratorium 3 to one NPL client affected by the COVID 19 pandemic (traffic) in accordance with the Decision of the National Bank of Serbia.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Group implements in the restructuring of receivables

Members of the Group implement different restructuring measures depending on the needs of clients, respecting the Group's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Group members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,
- The introduction of a grace period or moratorium on the settlement of obligations within a specified period,
- Capitalization of days past due, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of receivables is formed,
- Refinancing of receivables - in justified cases it is possible to refinance receivables from other creditors in order to improve the position of the Group (collateral or financial approval of favourable repayment terms),
- Partial write-offs - in the past period, the Group members did not carry out partial write-offs in the course of restructuring,
- The conversion of debt into equity - has not been carried out in the past period

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration

The Group manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio. Depending on market trends, risk appetite, the Group's business policy and annual business plan, the Group reviews and, if necessary, changes the internally set limits.

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

In thousands of RSD

As of December 31, 2021	Stage 1 and 2					Stage 3				
	Serbia	Montenegro	BiH	EU	Other	Serbia	Montenegro	BiH	EU	Other
Total retail	**119,045,487**	**-**	**-**	**-**	**-**	**2,320,860**	**-**	**-**	**-**	**-**
Housing Loans	51,999,012	-	-	-	-	882,434	-	-	-	-
Cash Loans	40,060,818	-	-	-	-	556,758	-	-	-	-
Agricultural Loans	12,310,283	-	-	-	-	263,810	-	-	-	-
Other Loans	3,989,721	-	-	-	-	199,854	-	-	-	-
Micro business	10,685,653	-	-	-	-	418,004	-	-	-	-
Corporate clients	**81,878,911**	**697,393**	**4,738,325**	**-**	**-**	**9,492,962**	**-**	**-**	**-**	**-**
Agriculture	3,148,348	-	-	-	-	15,144	-	-	-	-
Manufacturing industry	14,638,690	-	-	-	-	2,183,388	-	-	-	-
Electric Energy	5,144,496	-	-	-	-	0	-	-	-	-
Construction	14,818,008					733,092				
Wholesale and Retail	19,280,169	-	-	-	-	83,137	-	-	-	-
Service Activites	12,556,477	-	-	-	-	3,397,515	-	-	-	-
Real Estate Activities	6,900,742	-	-	-	-	1,283,501	-	-	-	-
Other	5,391,981	697,393	4,738,325	-	-	1,797,185	-	-	-	-
Total	**200,924,398**	**697,393**	**4,738,325**	**-**	**-**	**11,813,822**	**-**	**-**	**-**	**-**
Due from banks	**9,681,018**	**2,718**	**66,022**	**17,265,585**	**2,136,259**	**-**	**-**	**-**	**-**	**-**

The total exposure of non-problematic receivables in Montenegro and BiH is at stage 1. Depending on general economic trends and developments in individual industrial sectors, the Group members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

In thousands of RSD

As of December 31, 2020	Stage 1 and 2					Stage 3				
	Serbia	Montenegro	BiH	EU	Other	Serbia	Montenegro	BiH	EU	Other
Total retail	**109,445,754**	**-**	**-**	**-**	**-**	**2,105,053**	**-**	**-**	**-**	**-**
Housing Loans	45,865,720	-	-	-	-	905,200	-	-	-	-
Cash Loans	37,774,843	-	-	-	-	277,545	-	-	-	-
Agricultural Loans	11,697,740	-	-	-	-	282,684	-	-	-	-
Other Loans	4,359,653	-	-	-	-	198,889	-	-	-	-
Micro business	9,747,798	-	-	-	-	440,735	-	-	-	-
Corporate clients	**64,849,738**	**2,494,280**	**6,223,741**	**-**	**-**	**15,571,641**	**-**	**-**	**-**	**-**
Agriculture	2,867,120	-	-	-	-	9,002	-	-	-	-
Manufacturing industry	9,230,133	-	-	-	-	2,847,426	-	-	-	-
Electric Energy	3,529,051	-	-	-	-	0	-	-	-	-
Construction	11,980,938					669,404				
Wholesale and Retail	16,641,657	-	-	-	-	672,784	-	-	-	-
Service Activates	7,196,670	-	-	-	-	4,632,020	-	-	-	-
Real Estate Activities	6,736,204	-	-	-	-	1,356,389	-	-	-	-
Other	6,667,965	2,494,280	6,223,741	-	-	5,384,616	-	-	-	-
Total	**174,295,492**	**2,494,280**	**6,223,741**	**-**	**-**	**17,676,694**	**-**	**-**	**-**	**-**
Due from banks	**4,542,713**	**538,842**	**320,686**	**11,213,216**	**1,530,781**	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

In thousands of RSD

	As of December 31, 2021		As of December 31, 2020	
	Gross	Net	Gross	Net
Financial assets:				
-at fair value trough profit and loss	512,823	512,823	8,308,106	8,308,106
-at fair value trough other comprehensive income	148,297,294	148,296,712	144,626,430	144,625,977
-at amortized cost	942,144	934,484	846,000	842,240
Total	149,752,261	149,744,019	153,780,536	153,776,323

Financial assets at fair value through profit and loss relate to investment units of the Kombank Monetary Fund, which are valued by mark to market, as well as securities of the Republic of Serbia, which are assessed according to the methodology of internally developed models (mark to model) as well as swap transactions and bonds of the Republic of Serbia, which are held at fair value through the other comprehensive income, or on the basis of market prices for securities traded on the stock market (mark to market).

Financial assets at fair value through other comprehensive income are placements for which there is an intent to hold them in an unspecified period of time and which can be sold due to liquidity needs or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, the Republic of Srpska, the Republic of Montenegro, local self-government units and bonds of other banks and countries (United States, the Republic of Slovenia and the Republic of Ireland).
Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market, as well as applying internally developed models in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

Securities held at amortized cost relate to corporate bonds.

4.1.7. Collateral against credit risk (collateral)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following review.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

As of December 31, 2021	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other collaterals*	Total	Real Estate	Deposits	Guarantees	Other Collaterals*	Total
Housing Loans	47,687,370	3,149	-	3,034,485	**50,725,004**	280,384	-	-	12	**280,396**
Cash Loans	11,574	483,456	-	8,974,616	**9,469,646**	-	5,728	-	74,156	**79,884**
Agricultural Loans	4,814,918	3,225	2,390	6,903,368	**11,723,901**	98,356	-	-	54,809	**153,165**
Other Loans	92,136	1,701	-	90,085	**183,922**	3,602	247	-	9,009	**12,858**
Micro business	509,859	613,396	5,942,221	1,502,101	**8,567,577**	287,179	137,312	668,068	946,781	**2,039,340**
Total retail	**53,115,857**	**1,104,927**	**5,944,611**	**20,504,655**	**80,670,050**	**669,521**	**143,287**	**668,068**	**1,084,767**	**2,565,643**
Large corporate clients	19,426,939	147,041	178,209	18,117,349	**37,869,538**	2,164,623	-	286,524	521,751	**2,972,898**
Middle corporate clients	2,518,415	400,245	3,302,787	6,390,237	**12,611,684**	226,553	-	234,757	341,852	**803,162**
Small corporate clients	543,294	124,816	1,946,794	1,356,364	**3,971,267**	152,149	366	104,374	193,522	**450,411**
State owned clients	3,901,029	-	4,096,268	12,295,570	**20,292,868**	-	-	-	1,446,221	**1,446,221**
Other	-	-	-	4,222,590	**4,222,590**	-	-	-	-	**-**
Corporate clients	**26,389,677**	**672,102**	**9,524,058**	**42,382,110**	**78,967,947**	**2,543,325**	**366**	**625,655**	**2,503,346**	**5,672,692**
Total	**79,505,534**	**1,777,029**	**15,468,669**	**62,886,765**	**159,637,995**	**3,212,846**	**143,653**	**1,293,723**	**3,588,113**	**8,238,335**
Of which: restructured	-	-	-	-	**-**	153,587	-	-	110,637	**264,224**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

** Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.*

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

As of December 31, 2021	Stage 3				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	875,964	-	-	6,140	882,104
Cash Loans	-	5,693	-	181,358	187,051
Agricultural Loans	161,043	-	-	92,600	253,643
Other	565	1,074	-	14,893	16,532
Micro business	124,398	60,000	79,670	232,671	496,739
Total retail	**1,161,970**	**66,767**	**79,670**	**527,662**	**1,836,069**
Large corporate clients	3,782,867	-	-	325,456	4,108,323
Middle corporate clients	167,136	-	15,104	80,216	262,456
Small corporate clients	412,438	-	29,542	75,807	517,787
State owned clients	559,764	-	0	2,361,494	2,921,258
Other	31,845	-	956	1,543	34,344
Corporate clients	**4,954,050**	**-**	**45,602**	**2,844,516**	**7,844,168**
Total	**6,116,020**	**66,767**	**125,272**	**3,372,178**	**9,680,237**
Of which: restructured	3,760,260	-	-	2,418,500	6,178,760
Due from banks	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

	Stage 1					Stage 2				
As of December 31, 2020	**Real Estate**	**Deposits**	**Guarantees**	**Other Collaterals***	**Total**	**Real Estate**	**Deposits**	**Guarantees**	**Other Collaterals***	**Total**
Housing Loans	42,495,115	11,880	-	2,259,057	44,766,052	657,595	-	-	28,149	685,744
Cash Loans	6,090	564,087	-	9,681,758	10,251,935	127	10,204	-	232,032	242,363
Agricultural Loans	4,297,713	9,271	31,422	6,535,348	10,873,754	87,366	3,269	-	101,159	191,794
Other Loans	77,486	2,479	-	111,040	191,005	3,579	439	-	11,059	15,077
Micro business	643,012	552,313	3,871,910	3,098,204	8,165,439	397,175	181,335	142,226	851,102	1,571,838
Total reatail	**47,519,416**	**1,140,030**	**3,903,332**	**21,685,407**	**74,248,185**	**1,145,842**	**195,247**	**142,226**	**1,223,501**	**2,706,816**
Large corporate clients	11,551,288	178,205	3,416,827	8,803,852	23,950,172	5,660,395	-	220,144	570,802	6,451,341
Middle corporate clients	2,486,091	379,558	2,006,189	2,817,659	7,689,497	324,956	-	193,408	411,181	929,545
Small corporate clients	732,488	159,811	858,063	1,121,968	2,872,330	141,153	92	72,959	157,144	371,348
State owned clients	1,535,845	-	4,872,521	15,584,509	21,992,875	19,403	-	-	730,152	749,555
Other	-	-	-	6,899,846	6,899,846	-	-	-	-	-
Corporate clients	**16,305,712**	**717,574**	**11,153,600**	**35,227,834**	**63,404,720**	**6,145,907**	**92**	**486,511**	**1,869,279**	**8,501,789**
Total	**63,825,128**	**1,857,604**	**15,056,932**	**56,913,241**	**137,652,905**	**7,291,749**	**195,339**	**628,737**	**3,092,780**	**11,208,605**
Of which: restructured	-	-	-	-	-	249,991	-	-	172,863	422,854
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

** Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.*

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

	Stage 3				
As of December 31, 2020	**Real Estate**	**Deposits**	**Guarantees**	**Other Collaterals**	**Total**
Housing Loans	857,295	-	-	37,892	895,187
Cash Loans	533	813	-	102,346	103,692
Agricultural Loans	198,608	-	-	65,705	264,313
Other Loans	3,454	510	-	14,952	18,916
Micro business	217,186	-	10,481	223,589	451,256
Total retail	**1,277,076**	**1,323**	**10,481**	**444,484**	**1,733,364**
Large corporate clients	5,324,586	60	-	1,098,637	6,423,283
Middle corporate clients	447,496	-	-	82,111	529,607
Small corporate clients	254,436	-	20,213	562,812	837,461
State owned clients	568,989	-	-	2,856,666	3,425,655
Other	2,755,593	-	-	124	2,755,717
Corporate clients	**9,351,100**	**60**	**20,213**	**4,600,350**	**13,971,723**
Total	**10,628,176**	**1,383**	**30,694**	**5,044,834**	**15,705,087**
Of which: restructured	5,830,895	-	-	3,285,902	9,116,797
	-	-	-	-	-
Due from banks					

4 RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan to Value Ratio - LTV ratios.

Overview of loans covered by PP&E according to LTV range

In thousands of RSD

	Year ended December 31, 2021	2020
Less than 50%	18,331,413	18,976,984
50% - 70%	32,360,446	28,659,176
71% - 100%	23,164,003	28,222,903
101% - 150%	6,895,815	3,373,854
More than 150%	11,535,393	6,424,904
Total exposure	**92,287,070**	**85,657,821**
Average LTV	**59,78%**	**67,09%**

4.1.8. Material values acquired through the collection of receivables at net value

The collateral taken over by the Group members in the process of collecting placements is presented in the following review:

In thousands of RSD

	Residential Premises	Business Premises	Equipment	Land and Forests	Total
As of December 31, 2020	**48,829**	**1,042,203**	**24,063**	**115,766**	**1,230,861**
Acquisition	-	5,068	-	-	5,068
Sale	-	(224,536)	-	(3,852)	(228,388)
Transfer to assets held for sale	(12,298)	(138,133)	-	-	(150,431)
Other-change in value	16,768	50,021	(2,279)	14,870	79,380
As of December 31, 2021	**53,299**	**734,623**	**21,784**	**126,784**	**936,939**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

Liquidity risk is the possibility of adverse effects on the Group's financial result and capital due to the Group's inability to settle its obligations, and in the event of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Group respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, and it respects the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

The liquidity risk is manifested in the difference between the inflow of funds on the one hand and the maturity of liabilities on the other hand, including the possibility of delaying planned inflows as well as unexpected outflows. Liquidity risk can arise in the form of risk of sources of funds and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. On the other hand, the risk of liquidity is manifested through the deficit of reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking liquidity risk out of the process of its management. The primary role in the liquidity risk management process is performed by the Assets and Liabilities Management Committee of the parent Bank within its competencies, as well as other relevant committees of the Group members, whose decisions may influence the Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

- diversifies sources of funds, by currency and maturity;
- form and maintain sufficient level of liquidity reserves;
- manages funds;
- monitor future cash flows and liquidity on a daily basis;
- limits the basic sources of credit risk that have the most significant impact on the liquidity risk;
- defines and periodically tests the Liquidity Management Plans in Crisis Situations.

Liquidity risk management process consists of identification, measurement, mitigation, monitoring, controlling and reporting on liquidity risk.

Identification of liquidity risk in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

Measurement, or liquidity risk assessment, is a quantitative and / or qualitative assessment of the identified liquidity risk, using the following methods:

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Mitigation involves maintaining the liquidity risk at an acceptable level for the Group's risk profile by defining a system of limits that includes regulatory and internal limits, as well as the timely undertaking of risk mitigation measures and operations within these limits.

Liquidity risk control and monitoring includes the process of monitoring compliance with internally determined limits, as well as monitoring the defined measures for mitigating the Group's liquidity risk exposure, which includes control at all levels of liquidity risk management, as well as an independent control system implemented by organizational units responsible for internal audit and compliance control business.

Liquidity risk reporting includes the internal and external reporting system, is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month. In addition to harmonization with the externally defined liquidity limit, the Group adjusts its operations with a narrower liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month. During 2021, the Group maintained the liquid assets coverage ratio in all currencies, at a level not lower than the prescribed regulatory limit of 100%.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
As at December 31	3.88	4.06	3.65	3.94	454%	405%
Average for the period	4.18	4.17	3.94	4.00	601%	385%
Maximum for the period	4.68	4.73	4.42	4.50	757%	413%
Minimum for the period	3.51	3.42	3.37	3.27	425%	295%

During 2021, the liquidity indicator, the narrow liquidity indicator and the liquidity coverage ratio ranged above the defined limits.

The Group defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with internally defined liquidity limits on the last day:

	Limits	2021	2020
GAP up to 1 month / Total assets	Max (10%)	4.56%	0.10%
Cumulative GAP up to 3 months / Total assets	Max (20%)	5.68%	(1.02%)

In addition, the Group limits and adjusts the operations with the limits of the structure of liabilities and the limits defined by the maturity aspect of significant currencies.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2021

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	82,055,481	-	-	-	-	**82,055,481**
Loans and receivables due from other banks and other financial institutions	18,135,567	5,235,112	2,816,320	2,943,702	-	**29,130,701**
Loans and receivables due from customers	7,287,184	9,769,465	47,487,657	96,892,497	47,608,139	**209,044,942**
Financial assets (securities)	14,492,955	3,799,363	22,784,256	93,961,416	14,706,029	**149,744,019**
Other assets	1,336,303	581,039	60,532	-	-	**1,977,874**
Total	**123,307,490**	**19,384,979**	**73,148,765**	**193,797,615**	**62,314,168**	**471,953,017**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,942,830	34,864	156,887	335	-	**2,134,916**
Deposits and other liabilities due to customors	339,785,262	8,048,414	31,098,419	23,275,420	1,078,903	**403,286,418**
Other liabilities	1,096,392	324,183	409,857	661,701	26,488	**2,518,621**
Total	**342,824,484**	**8,407,461**	**31,665,163**	**23,937,456**	**1,105,391**	**407,939,955**
Net liquidity gap						
As of December 31, 2021	**(219,516,994)**	**10,977,518**	**41,483,602**	**169,860,159**	**61,208,777**	**64,013,062**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2020

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	86,892,070	-	-	-	-	**86,892,070**
Loans and receivables due from other banks and other financial institutions	14,487,364	1,274,584	229,829	2,873,705	-	**18,865,482**
Loans and receivables due from customers	8,519,209	9,733,181	44,571,951	102,511,591	54,097,695	**219,433,627**
Financial assets (securities)	661,487	6,874,596	13,282,947	112,787,393	24,832,233	**158,438,656**
Other assets	1,177,654	983,624	599,704	-	-	**2,760,982**
Total	**111,737,784**	**18,865,985**	**58,684,431**	**218,172,689**	**78,929,928**	**486,390,817**
Deposits and other liabilities due to banks, other financial institutions and central bank	4,651,670	1,996,227	597,961	850,332	-	**8,096,190**
Deposits and other liabilities due to customers	316,497,770	15,302,893	42,346,635	30,240,308	1,804,461	**406,192,067**
Other liabilities	2,179,207	295,806	884,991	496,016	26,373	**3,882,393**
Total	**323,328,647**	**17,594,926**	**43,829,587**	**31,586,656**	**1,830,834**	**418,170,650**
Net liquidity gap As of December 31, 2020	**(211,590,863)**	**1,271,059**	**14,854,844**	**186,586,033**	**77,099,094**	**68,220,167**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance positions arranged according to the remaining maturity, i.e. a conservative assumption is made that all transaction and avista deposits will be withdrawn within one month.

The Group collects deposits of corporate and retail sector, which usually have shorter maturities and can be withdrawn on demand. The short-term nature of these deposits increases the Group's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Group manages short-term liquidity risk by monitoring and controlling positions in all significant currencies in order to timely consider the need for additional sources of financing in the event of maturity of the respective positions, i.e. in the long-term plans the structure of its sources and placements in order to provide sufficiently stable sources and sufficient liquidity reserves. The management believes that the appropriate diversification of the portfolio of deposits by the number and type of depositors, as well as the previous experience, provide a good precondition for the existence of a stable and long-term deposit base, which is why no significant outflows are expected on this basis. The Group regularly reviews the Liquidity Management Plan in crisis situations and checks the survival and solvency period, the availability of sources for covering the liabilities that would possibly arise, or assess the support under the assumed conditions of the crisis.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at December 31, 2021

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	82,055,481	-	-	-	-	82,055,481
Loans and receivables due from other banks and other financial institutions	18,136,822	5,255,559	2,835,221	2,943,702	-	29,171,304
Loans and receivables due from customers	7,914,657	11,068,727	52,804,620	110,754,388	57,928,176	240,470,568
Financial assets (securities)	15,716,464	4,132,881	24,129,766	99,141,702	14,546,201	157,667,014
Other assets	1,336,303	581,039	60,532	-	-	1,977,874
Total	**125,159,726**	**21,038,206**	**79,830,139**	**212,839,792**	**72,474,377**	**511,342,240**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,942,999	35,138	157,494	335	-	2,135,966
Deposits and other liabilities due to customers	339,818,887	8,079,011	31,276,800	24,198,252	1,248,498	404,621,448
Other liabilities	1,097,302	325,921	416,501	674,920	29,251	2,543,895
Total	**342,859,189**	**8,440,070**	**31,850,795**	**24,873,507**	**1,277,749**	**409,301,310**
Net liquidity gap As of December 31, 2021	**(217,699,463)**	**12,598,136**	**47,979,344**	**187,966,285**	**71,196,628**	**102,040,930**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at 31 December 2020.

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	86,892,070	-	-	-	-	**86,892,070**
Loans and receivables due from other banks and other financial institutions	14,342,977	1,279,471	338,410	2,994,555	-	**18,955,413**
Loans and receivables due from customers	9,329,969	11,336,879	51,157,252	121,893,095	68,378,055	**262,095,250**
Financial assets (securities)	661,487	6,874,596	13,282,947	112,787,393	24,832,233	**158,438,657**
Other assets	1,177,656	983,624	658,677	-	-	**2,819,957**
Total	**112,404,160**	**20,474,570**	**65,437,286**	**237,675,043**	**93,210,288**	**529,201,347**
Deposits and other liabilities due to banks, other financial institutions and central bank	4,657,754	2,003,471	621,402	994,521	-	**8,277,148**
Deposits and other liabilities due to customers	316,635,995	15,512,558	42,893,599	31,905,403	2,234,999	**409,182,554**
Other liabilities	2,197,450	295,806	884,991	496,016	26,373	**3,900,636**
Total	**323,491,199**	**17,811,835**	**44,399,992**	**33,395,940**	**2,261,372**	**421,360,338**
Net liquidity gap						
As of December 31, 2020	**(211,087,039)**	**2,662,735**	**21,037,294**	**204,279,103**	**90,948,916**	**107,841,009**

Undiscounted cash flows arising from the positions of monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates. In the case of transaction and avista deposits that are in accordance with a conservative approach, allocated to a maturity of up to one month, undiscounted cash flows include only flows based on the debt principal.

4. RISK MANAGEMENT (continued)

4.3. *Market risks*

Market risk is the possibility of adverse effects on the Group's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Group is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, the Investment Board as well as other relevant committees of the parent Bank, as well as the relevant committees of the Group members whose decisions may influence the Group's exposure to this risk.

4.3.1 Interest rate risk

Interest rate risk is the risk of adverse effects on the Group's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Group manages the following types of interest rate risk:

• Risk of time mismatch of repayment and repricing risk;
• Yield curve risk - to whom it is exposed due to change in yield curve shape;
• Base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;
• Optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Group manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

The Group particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

4. RISK MANAGEMENT (continued)

4.3.1 Interest rate risk (continued)

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

• GAP analysis;
• Sensitivity analysis;
• Basic risk analysis;
• Credit spread risk analysis.

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile and implies the process of defining the Group's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Group's interest rate risk. Interest rate risk control involves control at all levels of governance as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Group's members on interest rate risk management.

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

During 2021, interest rate risk indicators moved within internally defined limits.

Compliance with internally defined limits of economic value of capital:

	2021	2020
On December 31st	2.69%	3.06%
Average for period	2.77%	3.63%
Maximum for period	3.13%	4.20%
Minimum for period	1.44%	3.06%
Limit	**20%**	**20%**

4. RISK MANAGEMENT (continued)

4.3.1 Interest rate risk (continued)

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:
Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2021

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Interest Bearing	Total
Cash and cash funds held with the central bank	25,209,646	-	-	-	-	25,209,646	56,845,835	82,055,481
Loans and receivables due from other banks and other financial institutions	21,095,589	5,235,112	2,800,000	-	-	29,130,701	-	29,130,701
Loans and receivables due from customers	91,730,632	20,754,905	51,424,776	43,137,734	1,996,895	209,044,942	-	209,044,942
Financial assets (securities)	13,980,132	3,799,363	22,784,256	93,866,822	14,706,029	149,136,602	607,417	149,744,019
Other assets	-	-	-	-	-	-	1,977,874	1,977,874
Total	**152,015,999**	**29,789,380**	**77,009,032**	**137,004,556**	**16,702,924**	**412,521,891**	**59,431,126**	**471,953,017**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,133,440	-	-	-	-	2,133,440	1,476	2,134,916
Deposits and other liabilities due to customers	340,549,150	7,715,980	29,490,012	22,998,574	1,038,413	401,792,129	1,494,289	403,286,418
Other liabilities	-	-	-	-	-	-	2,518,621	2,518,621
Total	**342,682,590**	**7,715,980**	**29,490,012**	**22,998,574**	**1,038,413**	**403,925,569**	**4,014,386**	**407,939,955**
Interest rate GAP At December 31, 2021	**(190,666,591)**	**22,073,400**	**47,519,020**	**114,005,982**	**15,664,511**	**8,596,322**	**55,416,740**	**64,013,062**

4. RISK MANAGEMENT (continued)

4.3.1 Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2020

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Interest Bearing	Total
Cash and cash funds held with the central bank	34,314,578	-	-	-	-	34,314,578	52,577,492	86,892,070
Loans and receivables due from other banks and other financial institutions	15,790,102	1,293,441	255,292	127,601	-	17,466,436	1,399,046	18,865,482
Loans and receivables due from customers	72,906,125	22,677,677	63,933,593	55,078,214	4,346,151	218,941,760	491,867	219,433,627
Financial assets (securities)	152,566	6,874,596	13,282,947	112,787,393	24,832,233	157,929,735	508,921	158,438,656
Other assets	-	-	-	-	-	-	2,760,982	2,760,982
Total	123,163,371	30,845,714	77,471,832	167,993,208	29,178,384	428,652,509	57,738,308	486,390,817
Deposits and other liabilities due to banks, other financial institutions and central bank	4,223,467	2,073,599	946,568	850,133	-	8,093,767	2,423	8,096,190
Deposits and other liabilities due to customors	310,601,395	15,783,848	43,810,784	32,894,526	1,734,143	404,824,696	1,367,371	406,192,067
Other liabilities	38,257	-	-	-	-	38,257	3,844,136	3,882,393
Total	314,863,119	17,857,447	44,757,352	33,744,659	1,734,143	412,956,720	5,213,930	418,170,650
Interest rate GAP At December 31, 2020	**(191,699,748)**	**12,988,267**	**32,714,480**	**134,248,549**	**27,444,241**	**15,695,789**	**52,524,378**	**68,220,167**

4. RISK MANAGEMENT (continued)

4.3.1 Interest rate risk (continued)

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and avista deposits will be withdrawn within one month.

The management of the Group members believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Group regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Group.

The Group assesses the impact that standardized interest rate shocks, parallel positive and negative interest rates on the reference yield curve of 400 basis points for RSD and 200 basis points for each significant currency individually and for all other currencies together.

Report on GAP Interest Rate Risk of the Monetary Sub-balance on December 31, 2021 (continued)

The standard scenario implies a parallel change (increase and decrease) of the interest rate of 100 basis points (b.p.). The analysis of the Group's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 bp.
2021		
As at December 31	420,400	(420,400)
2020		
As at December 31	538,445	(538,445)

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk

The Group is exposed to foreign exchange risk that manifests itself through the possibility of adverse effects on the financial result and equity due to the change in inter-currency relationships, the change in the value of the domestic currency against foreign currencies or the change in the value of gold and other precious metals. All positions contained in the banking book and trading book in foreign currency and gold, as well as dinar (RSD) positions indexed by currency clause are exposed to foreign exchange risk.

In order to minimize exposure to foreign exchange risk, the Group performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open positions by individual currencies, respecting the principles of manual asset transformation.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking foreign exchange risk from the process of its management.

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Group comprehensively identifies in a timely manner the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

• GAP analysis and foreign exchange risk indicator;
• VaR;
• Stress test;
• Backtesting,

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile by setting a transparent system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and the compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk enables timely measures to be taken to maintain foreign exchange risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at December 31:

	2021	2020
Total risk foreign exchange position	1,306,182	6,993,596
Foreign exchange risk indicator	2.00%	10.13%
Regulatory limit	20%	20%

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at December 31, 2021

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	43,703,757	210,126	8,007,477	620,924	52,542,284	-	-	29,513,197	**82,055,481**
Loans and receivables due from other banks and other financial institutions	15,242,500	2,097,905	450,110	3,077,949	20,868,464	-	-	8,262,237	**29,130,701**
Loans and receivables due from customers	6,910,244	1,138	-	0	6,911,382	138,770,935	47,704	63,314,921	**209,044,942**
Financial assets (securities)	53,502,848	8,162,770	1,760,642	0	63,426,260	40,600	-	86,277,159	**149,744,019**
Other assets	612,254	2,136,748	894	119	2,750,015	-	-	-772,141	**1,977,874**
Total	**119,971,603**	**12,608,687**	**10,219,123**	**3,698,992**	**146,498,405**	**138,811,535**	**47,704**	**186,595,373**	**471,953,017**
Deposits and other liabilities due to banks, other financial institutions and central bank	970,794	192,765	140,395	29,461	1,333,415	1,352	-	800,149	**2,134,916**
Deposits and other liabilities due to customers	254,535,330	11,217,791	10,127,893	3,596,891	279,477,905	336,019	-	123,472,494	**403,286,418**
Other liabilities	313,134	149,104	4,868	14,948	482,054	805,394,00	-	1,231,173	**2,518,621**
Total	**255,819,258**	**11,559,660**	**10,273,156**	**3,641,300**	**281,293,374**	**1,142,765**	**-**	**125,503,816**	**407,939,955**
Net Currency Position December 31, 2021	**(135,847,655)**	**1,049,027**	**(54,033)**	**57,692**	**(134,794,969)**	**137,668,770**	**47,704**	**61,091,557**	**64,013,062**

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at December 31, 2020

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	36,703,618	1,020,515	6,875,136	5,386,502	49,985,771	-	-	-	36,906,299	**86,892,070**
Loans and receivables due from other banks and other financial institutions	13,193,256	2,173,599	500,522	2,952,461	18,819,838	-	-	-	45,644	**18,865,482**
Loans and receivables due from customers	24,909,300	-	-	17,553,351	42,462,651	120,159,267	-	53,894	56,757,815	**219,433,627**
Financial assets (securities)	55,915,979	9,753,914	1,739,077	2,595,794	70,004,764	105,757	-	-	88,328,135	**158,438,656**
Other assets	1,202,392	58,087	1,155	22,348	1,283,982	-	-	-	1,477,000	**2,760,982**
Total	**131,924,545**	**13,006,115**	**9,115,890**	**28,510,456**	**182,557,006**	**120,265,024**	**-**	**53,894**	**183,514,893**	**486,390,817**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,478,460	112,909	42,743	4,057,180	5,691,292	20,158	-	-	2,384,740	**8,096,190**
Deposits and other liabilities due to customers	251,820,362	11,851,314	8,970,720	18,203,193	290,845,589	144,321	-	-	115,202,157	**406,192,067**
Other liabilities	795,966	160,655	53,372	419,224	1,429,217	751,592	-	-	1,701,584	**3,882,393**
Total	**254,094,788**	**12,124,878**	**9,066,835**	**22,679,597**	**297,966,098**	**916,071**	**-**	**-**	**119,288,481**	**418,170,650**
Net Currency Position December 31, 2020	**(122,170,243)**	**881,237**	**49,055**	**5,830,859**	**(115,409,092)**	**119,348,953**	**-**	**53,894**	**64,226,412**	**68,220,167**

4. RISK MANAGEMENT (continued)

4.5. A review of the ten-day VaR

The Group also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and/or changes in more financial variables on the financial result, equity and foreign exchange risk indicator.

VaR denotes the largest possible loss in the Group's portfolio for a certain period and at a predetermined confidence interval. The Group calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Group calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2021 and 2020 is shown as follows:

In thousands of RSD

	As at December 31	Average	Maximum	Minimal
2021				
Foreign currency risk	17,267	752	17,267	43
2020				
Foreign currency risk	2,718	4,351	64,157	975

4.6. Operational risk

The Group members monitor daily operational risk events and manage operational risks. In order to efficiently monitor operational risk, in each organizational part of the Bank Group member, employees for operational risks are appointed, who are responsible for the accuracy and promptness of data on all operational risk events, as well as for recording all incurred events in the operational risk database. The organizational part of the Bank of the Group member in charge of risk management monitors and reports on operational risks.

The Group performs measurement and / or assessment of operational risk through a quantitative and /or qualitative assessment of the identified operational risk. The Group members conduct measurement of operational risk exposure through event logging, and determining the profile of operational risks. The operational risk profile represents the Group's exposure to operational risk in accordance with the predefined processes by measuring the possible range, the importance to the business, and the frequency of events that can cause losses, by identifying the level of control that areas of business have against these risks and improvement measures.

The Group can’t eliminate all operational risks, but by introducing an appropriate control framework, monitoring and mitigating potential risks, it establishes a process for managing operational risk, the Group takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, implementation of adequate and a reliable information system and orientation to the project approach, whose implementation improves business practice and optimizes business processes.

4. RISK MANAGEMENT (continued)

4.6. Operational risk (continued)

Through reliable reporting on the implementation of measures to mitigate operational risks, the Group has established a monitoring system for activities undertaken by the Group members in order to reduce operational risks and preventive responses to emerging operational events. The Group assesses the risk of relying on third parties for performing certain activities related to business, based on a contract concluded with those persons that clearly define the terms, rights, obligations and responsibilities of the contracted parties.

For the purpose of smooth and continuous operation of all significant Group's processes and processes, as well as limitation of losses in emergencies, the Group members adopted the Business Continuity Plan, with the goal of restoring the recovery of the information technology system in case of termination of operations. The member banks of the Group have adopted the Disaster Recovery Plan.

4.7. Risks of investment

The risk of the Group's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Group's investment in a person who is not a person in the financial sector may be up to 10% of the Group's capital, whereby this investment implies an investment by which members of the Group acquire a holding or shares of a person other than a person in the financial sector. The Group's total investments in non-entities in the financial sector and in fixed assets and investment property of the Group may be up to 60% of the Group's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.8. Risk of exposure

The Group's large exposure to a single entity or a group of related parties, including entities related to the Group, is an exposure that exceeds 10% of the Group's capital.

In its business, the Group takes care of compliance with the regulatory defined exposure limits:

- Exposure to a single client or a group of related parties must not exceed 25% of the Group's capital;
- The sum of all large Group exposures must not exceed 400% of the Group's capital.

Defined limits of exposure to one client or a group of related parties also applies to clients related to the Group.

The Group's exposure to one entity or group of related parties, as well as the exposure to clients related to the Group, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.9. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Group is exposed, or the risk of the possibility of adverse effects on the Group's financial result and capital due to the inability of the Group members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

- Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Group to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;

- Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Group manages the country's risk at the level of individual placements and portfolio level. Measuring and controlling the exposure of an individual country's risk exposure to a country's risk is determined by the category of internal rating of the debtor country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Group's capital, depending on the country's internal rating category. The Group performs measurement and control of the exposure of the country risk portfolio based on the grouping of receivables according to the degree of risk of the borrower countries.

In order to adequately manage the country's risk, the Group defines the exposure limits individually by country of origin of the debtor.

4. RISK MANAGEMENT (continued)

4.10. Fair value of financial assets and liabilities

Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousand of RSD

	As of December 31, 2021					As of December 31, 2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets										
Cash and cash equivalents held with the Central Bank	82,055,482	82,055,482	82,055,482	-	-	80,045,107	80,045,107	80,045,107		
Loans and receivables from banks and other financial organisations	29,114,381	29,114.381	29,114,381	-	-	18,142,070	18,142,070	18,142,070		
Loans and receivables from clients	209,044,943	208,948,338			208,948,338	189,296,089	187,604,124	-	-	187,604,124
Other assets	5,430,723	5,430,723	5,430,723	-		6,216,270	6,216,270	6,216,270		
Securities held at amortized cost	934,484	934,484	-	-	934,484	842,240	842,240			842,240
Financial Liabilities										
Deposits and other liabilities to banks, other financial organisations and central bank	2,134,969	2,134,969	1,705,139	-	429,830	8,096,190	8,096,190	5,140,177	-	2,956,013
Deposits and other financial liabilities to clients	403,286,418	403,239,009	-	-	403,239,009	406,192,067	405,924,829	-	-	405,924,829
Other liabilities	4,142,443	4,142,443	-	-	4,142,443	3,882,393	3,882,393	-	-	3,882,393

The calculated fair value of loans and advances to customers, as well as deposits received is equal to the fair value estimated by NLB d.d. and at which they are recognized on the date of acquisition of the majority stake in the Bank. On the date of acquisition, the impairment of most of the financial assets that have the status of risk-free exposures was also recognized. The values in the table above are shown in accordance with the fair values of these positions estimated on the day of taking over the Parent Bank (December 31, 2020) and amortized respectively until December 31, 2021.

4. RISK MANAGEMENT (continued)

4.10. Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value

In thousands of RSD

	As of December 31, 2021				As of December 31, 2020			
Financial assets	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit and loss in RSD	512,823	-	-	512,823	508,922	4,873,616	-	5,382,538
Financial assets at fair value through profit and loss in foreign currency	-	-	-	-	-	2,925,568	-	2,925,568
Financial assets at fair value through other comprehensive income in RSD	140,170	84,689,682	-	84,689,682	-	81,955,812	-	81,955,812
Financial assets at fair value through other comprehensive income in foreign currency	23,048,496	40,377,764	40,600	63,451,766	19,181,058	48,045,683	105,757	67,332,498
Total	**23,701,489**	**125,067,446**	**40,600**	**148,654,271**	**19,689,980**	**137,800,679**	**105,757**	**157,596,416**

Stage 1 comprises financial instruments with whom it can be traded on the international market and where there is an adequate price available or which are traded by the method of continuous trading, if the instruments are from the Belgrade Stock Exchange (bonds of the Republic of Serbia traded on the international market in EUR and USD, Republic of Slovenia, Republic of Ireland, USA, Raiffeisen Bank International), , while Stage 2 contains securities which fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market (RS bonds in RSD and EUR).
The fair value of assets for which no direct trading information is available is assigned to Stage 3 (municipal bonds).

4. RISK MANAGEMENT (continued)

4.11. Capital management

The Group has established a risk management system in accordance with the scope and structure of its business activities, and the objective of capital management is the smooth realization of the Group's business objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main goals of managing the capital are:

- Preservation of the minimum regulatory requirement (EUR 10 million);
- Maintenance of individual capital buffers;
- Respect of the minimum regulatory capital adequacy ratios increased for the combined capital buffer;
- Maintaining confidence in security and business stability;
- Realization of business and financial plans;
- supporting the expected growth in placements;
- Enabling the optimism of future sources of funds and their use;
- achieving dividend policy.

The regulatory capital of the Group is the sum of the Tier 1 capital (consisting of the Common Equity Tier 1 capital and additional Tier 1 capital) and Tier 2 capital, reduced for the deductible items. Capital adequacy ratios represent the ratio of capital of the Group (total, Tier 1 or Common Equity Tier 1) and the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries, settlement / delivery risk except on the basis of free delivery), market risks, operational risk, risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries of the banking Group shall be determined in accordance with the prescribed risk weight for all exposure classes. Risk exposure amount for operational risk is calculated by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

4. RISK MANAGEMENT (continued)

4.11. Capital management

Capital adequacy ratios

		In thousands of RSD Year ended December 31,
	2021	**2020**
Tier 1 capital	66,071,468	70,902,630
Common Equity Tier 1 capital	65,697,958	70,529,120
Additional Tier 1 capital	373,510	373,510
Deductible items of capital	(713,172)	(1,881,099)
Capital	**65,358,296**	**69,021,531**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	194,363,632	199,051,603
Risk exposure amount for operational risk	34,534,805	36,826,475
Risk exposure amount for market risks	-	3,594,496
Capital adequacy ratio (min. 14.35%)	**28.55%**	**28.82%**
Tier 1 capital adequacy ratio (min. 12.35%)	**28.55%**	**28.82%**
Common Equity Tier 1 capital adequacy ratio (min. 10.85%)	**28.39%**	**28.67%**

During 2021, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively) .

By the Capital Management Strategy and Plan, the Group ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use at the banking group level, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2020, the Group calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

The Capital Management Plan, as part of the capital management system, includes:

• 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.

On a continuous basis, the Group conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

4. RISK MANAGEMENT (continued)

4.11. Capital management (continued)

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

- is based on identification and risk measurement;
- provides a comprehensive assessment and monitoring of the risks to which the banking Group is exposed or may be exposed;
- Provides adequate available internal capital in accordance with the risk profile of the banking Group;
- is involved in the banking Group management system and decision making;
- Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process at the banking group level include:

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- Calculation of stressed internal capital requirement for individual risks;
- Determining 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.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances, with the application of the concept of expected credit loss.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are valued at amortised cost are assessed for impairment in the manner described in accounting policy 3 (j).

The impairment of the placement aims ensure a reasonable, careful and timely determination of losses in order to protect the Group's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are only made when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, and which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

The Group assesses the impairment of receivables on a group and on an individual basis.

5. USE OF ASSESSMENT (continued)

Individual assessment

The Group assesses the impairment allowance for each individually significant placement with the default status, ie placements that are classified at stage 3 in accordance with IFRS 9. On this occasion, account is taken of the financial position of the loan beneficiary, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the 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 fulfilment of client's obligations towards the Group, a new assessment of the impairment of placements is made.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Objective evidence that indicates the need for impairment of placements is considered to be:

- 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-fulfilment of other contractual provisions;
- when the members of the Group , due to the financial difficulties of the borrower, substantially change the terms of repayment of receivables in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) and the like.

Evidence can be documented by the analysis of the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of clients collateral, reports of enforced collection and days of blockade, reports on loans in arrears and other information to which the Group has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Group recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Group on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

5. USE OF ASSESSMENT (continued)

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and which are not individually significant in default status and for placements for which impairment allowance calculated on individual assessment has not been determined, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Group estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the corporate sector and by rating groups by type of placements in the retail sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incurred credit loss in accordance with IAS 39, the principle of expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

Group-based impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), except in cases where there is a significant increase in credit risk in relation to the moment of initial recognition, when the credit loss assessment is carried out on the probability of default for the instrument's life span (stage 2 receivables).

By appreciating the specifics of the clients, migrations for corporate clients, micro businesses, retail clients by product types, financial institutions and exposure to countries are determined separately.

The impairment allowance reduces the gross amount of the placements and is recognized as an expense in the income statement.

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is carried out when it is estimated that there is enough certain expectation that an outflow of funds will be made to settle the contingent liability. The Group also determines the probable loss for unused commitments, for which there is not unconditional and without prior notice, possible cancelation the contracted obligation. When calculating provisions based on unused commitments, the Group uses a conversion factor (CCF) that adjusts the carrying amount of unused commitments.

5. USE OF ASSESSMENT (continued)

Determination of fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the well informed, willing parties in a transaction under market conditions.

The Group performs valuation of financial instruments by:

- Fair value through profit and loss
- Fair value through other comprehensive income, with the recognition of "recycling" or without recognition in the income statement.

Financial assets and liabilities classified at fair value through profit and loss are subsequently measured at the fair value without including the cost of sales or other expenses when the recognition is terminated. Gains / losses arising from the change in the fair value of these financial instruments, their dividend income, and exchange rate differences are recognized in the income statement. There is no test of the potential impairment of these financial instruments.

After initial recognition, equity instruments are subsequently measured depending on whether they have a quoted market price. Instruments of capital which have a quoted market price are measured at market value, and investments in equity instruments that do not have a quoted market price in an active market are measured using valuation techniques, combining more available approaches and techniques for measuring fair values.

Investments in equity instruments that are not held for trading and which are measured at fair value through other comprehensive income are subsequently measured at fair value excluding the cost of sales or other expenses in case of derecognition. With the exception of received dividends recognized in the income statement, all other related gains and losses, including a component of foreign exchange differences, are recognized in the other comprehensive income, through equity.

The amounts shown in the other comprehensive income cannot be subsequently transferred to the income statement, although cumulative gains or losses can be transferred within equity, to undistributed profits.

Investments in debt instruments that are valued at fair value through other comprehensive income are valued in the following way after initial recognition:

a. gains / losses from impairment, which are derived from the same methodology, which is also applied to financial assets measured at amortized cost, are recognized in the income statement;
b. gains / losses on exchange differences are recognized in the income statement;
c. interest income, calculated using the effective interest method, is recognized in the income statement;
d. gains / losses from changes in fair value are recognized through other comprehensive income;
e. in case of modification made, the gain / loss from modification is recognized in the income statement and
f. in case of derecognition, the cumulative gain / loss previously recognized through the other comprehensive income is reclassified from equity to the income statement, as adjustment due to reclassification.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

Financial derivatives are subsequently translated at market value. Market values of financial derivatives are obtained on the basis of various valuation techniques, including the discounting of cash flows. The change in the value of financial derivatives is accounted for in the balance sheet and income statement.

Changes in the fair value of financial liabilities for liabilities that are measured at fair value are made in the case of:

- a change in fair value that is a consequence of a change in its own credit risk of an obligation is reflected in the other comprehensive income, and
- the remaining amount of the change in the fair value of the liability is recorded in the income statement.

Financial liabilities held for trading and derivatives, after initial recognition and impairment, are valued at fair value.

The change in the fair value of a financial liability held for trading is included in income statement of the period in which it was incurred.

If the Group settles its obligations towards creditors and employees in cash, which is determined in relation to the price of the shares or has the option to determine between these two methods of settling the obligation, the valuation of such transactions is carried out in accordance with the relevant IFRS.

Concept of fair value

When measuring fair values, the Group identifies methods/techniques that need to maximize the use of observable inputs and to minimize the use of unobservable inputs.

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

The Group determines the fair value of financial instruments at the balance sheet date. Whenever possible, the Group performs measurement of fair value using the market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions at market conditions.

In the event that the market for financial instruments is not active, fair value is determined using methodology assessment. Estimation methodologies include transactions at market terms between the well informed, willing parties (if available), reference to the existing fair value of other instruments that are essentially the same, discounted cash flow analyses, and other alternative methods. The selected assessment methodology maximizes the use of market data, is based on the least possible extent on the Group-specific estimates, and includes all factors that market participants consider as determining for the price, in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

The best evidence of the fair value of a financial instrument in the initial recognition is the price achieved in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all the differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the individual facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-observable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when they are purchased, transferred or sold, or when the fair value becomes noticeable. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of the Bank and other counterparties, where relevant. Estimates of fair values based on assessment models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that the Group considers that third parties can take them into account when determining the transaction price.

Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments, based on Politics and Strategy risk management.

6. SEGMENT REPORTING

6.1. Reporting by strategic segments - members of the Group

The Parent bank monitors and discloses business segments through two model reports:

- Reporting by strategic segments - members of the Group (Note 6.1.) and
- Reporting by operational segments - business lines (Note 6.2.).

Information about the results of each reporting segment is shown below.

The Group has four members representing strategic organizational parts:

Komercijalna banka a.d Belgrade, Serbia, Parent bank	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Podgorica, Montenegro	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
KomBank INVEST a.d Belgrade UCITS Fund Management Company, Serbia	It includes investment fund management activities

Bearing in mind that in December 2021, the Komercijalna banka a.d. Banja Luka was sold, and in November 2021 Komercijalna banka a.d. Podgorica was merged with NLB a.d. Podgorica and thus at the end of 2021, the Group has, in addition to the Parent Bank, one subsidiary KomBank INVEST a.d. Belgrade and one associate NLB a.d. Podgorica.

The Parent bank monitors and discloses operations in strategic segments - the Group's members within its consolidated financial statements. The Group carries out most of its business on the territory of the Republic of Serbia. Subsidiaries are not material to the standalone financial report of the Parent bank.

As of December 31, 2021, the balance sheet sum of the Parent bank amounts to 90.96%of the total balance sheet sum of the consolidated balance sheet (2020: 90.98%) and the balance sum of KomBank INVEST amounts to 0.03%.

As of December 31, 2020, the balance sheet sum of Komercijalna banka ad Podgorica, amounts to 3.42% of total consolidated assets, Komercijalna banka ad Banja Luka 5.57% and KomBank INVEST 0.03 %.

The result of the strategic segment is used to measure business performance, since the management of the Parent bank believes that this information is most relevant for evaluating the results of a particular strategic segment in comparison with other legal entities operating in the listed activities in the local market.

6. SEGMENT REPORTING (continued)

6.1. Reporting by strategic segments - members of the Group (continued)

6.1.a. Reclassification of positions in the standalone financial statements of the Group members before consolidation

For the purposes of consolidation, and before the consolidation procedure, the reclassification of positions in the standalone financial statements of the members of the Group is carried out, which leads to the correction of the balance sheet amounts and the results in the profit and loss account set out in the statutory statements.

Reclassified financial statements represent initial balance sheet items that are subject to the consolidation.

As at December 31, 2021 the following reclassifications are made in the balance sheet and profit and loss accounts of the Group members:

Balance sheet

In thousands of RSD

Statutory balance sheet sum of KB Banja Luka	**79,148**
Outcome of differences – application the internal and regulatory credit risks methodology – impairment computing (negative effect)	(10,794)
Outcome of application the internal credit risks methodology - interest income for customers at impairment stage 3 is not recognized in the income statement by the regulator - termination of accounting	642
Elimination of income from sale of tangible assets	(1,956)
Reclassified balance sheet sum of KB Banja Luka	**67,040**

In the preparation the consolidation statements, mutual transactions were eliminated from the balance sheet in the amount of RSD 140,365 thousand (2020: RSD 7,578,111 thousand). Revenues in the amount of RSD 25,064 thousand (2020: RSD 92,069 thousand) and expenses in the same amount (2020: RSD 91,624 thousand) were eliminated from the profit or loss account.

6. SEGMENT REPORTING (continued)

6.1. Reporting by strategic segments - members of the Group (continued)

6.1.a. Reclassification of positions in the standalone financial statements of the Group members before consolidation (continued)

Standalone reclassified Balance sheet as of December 31, 2021

Standalone Balance sheets of Group's members were not reclassified.

Reclassified Income statement (before tax) as of December 31, 2021:

In thousands of RSD

KB Beograd	3,451,548
KB Podgorica	(602,908)
KB Banja Luka	69,737
KomBank INVEST	636
Aggregate reclassified unconsolidated profit or loss account (before tax)	**2,919,014**

6.1.b. Overview of intercompany transactions

Balance sheet as of December 31, 2021:

In thousands of RSD

Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
489,608,587	**140,365**	**489,468,222**
Cash / Payables	53	
Placements / Liabilities	312	
Equity shares / Capital	140,000	

Income Statement as of December 31, 2021:

In thousands of RSD

Collective unconsolidated profit in the Income statement (before tax)	Amount of consolidation of the income statement		Consolidated profit (before tax)
	income	**expenses**	
2,919,014	**1,897,858**	**2,233,713**	**2,583,160**
Interest	9,232	9,232	
Fees	15,488	15,488	
Other income/expenses	344	344	
Profit / (loss) from loss of control	253,623	2,208,649	
FX differences	1,619,171	-	

6. SEGMENT REPORTING (continued)

6.1. Reporting by strategic segments - members of the Group (continued)

6.1.b. Overview of intercompany transactions (continued)

In thousands of RSD

Consolidated profit (before tax)	**2,583,160**
Profit tax	(4,676)
Net loss on deferred taxes	199,109
Consolidated profit (after tax)	**2,777,593**

Profit and loss on deferred taxes

In the profit and loss statement as at December 31, 2021, the Group disclosed a net loss based on the effects of deferred taxes in the amount of RSD 199,109 thousand. The Parent bank disclosed a net profit on the same basis in the amount of RSD 182,315 thousand, KB Podgorica in the amount of RSD 15,790 thousand, KomBank INVEST net profit in the amount of RSD 289 thousand and KB Banja Luka in the amount of RSD 715 thousand.

Profit tax

The Parent bank does not have the option of performing tax consolidation due to the applicable regulations in the Republic of Serbia. The Group members' final amounts of liabilities based on profit tax are determined by the application of the tax rate on the tax base determined by local tax regulations and disclosed in individual notes with their annual statutory financial statements.

The disclosed profit tax at the Group level amounting to RSD 4,676 thousand refers to KB Podgorica RSD 1,261 thousand, KB Banja Luka in the amount of RSD 3,413 thousand and KomBank INVEST in the amount of RSD 2 thousand.

The Parent Bank has not stated income tax, due to the right to use the tax credit from previous years.

Balance sheet as of December 31, 2020

In thousands of RSD

	Aggregate unconsolidated balance sheet - adjusted	Balance sheet consolidation balance	Consolidated balance sheet - adjusted
	508,447,050	**7,578,111**	**500,868,939**
Cash / Payables		5,549	
Placements / Liabilities		2,091,674	
Equity shares / Capital		5,480,888	

Income Statement as of December 31, 2020

In thousands of RSD

	Cumulative non-consolidated profit in the Income Statement (before tax) - adjusted	Amount of consolidation of the income statement		Consolidated profit (before tax) - adjusted
		income	expenses	
	3,884,572	**92,069**	**91,624**	**3,884,127**
Interest		16,902	16,902	
Fees		8,997	8,997	
Other income/expenses		295	295	
Exchange rate differences(reclassified to equity)		65,875	65,430	

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group

6.1.c. Overview of the activities of Strategic Segments

Below is an overview of the activities of strategic segments from the consolidated balance sheet and the consolidated income statement:

A. BALANCE SHEET - CONSOLIDATED on December 31, 2021

In thousand RSD

	Komercijalna banka a.d., Beograd	KomBank INVEST a.d., Beograd	Total
ASSETS			
Cash and cash funds held with the central bank	82,055,481	-	82,055,481
Securities	149,588,755	155,264	149,744,019
Loans and receivables from banks and other financial organisations	29,114,381	16,320	29,130,701
Loans and receivables from clients	209,044,942	-	209,044,942
Investments in associates and joint ventures	1,479,000	-	1,479,000
Intangible assets	582,101	-	582,101
Property, plant and equipment	8,755,659	81	8,755,740
Investment property	2,610,531	-	2,610,531
Current tax assets	18,911	74	18,985
Deferred tax assets	509,242	2,773	512,015
Fixed assets held for sale and assets from discontinued operations	101,614	-	101,614
Other assets	5,430,413	2,680	5,433,093
Total assets	**489,291,030**	**177,192**	**489,468,222**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overview of the activities of Strategic Segments (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2021 (continued)

In thousands of RSD

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities due to bank, other financial institutions and the Central bank	2,134,916	-	2,134,916
Deposits and other financial liabilities to clients	403,286,418	-	403,286,418
Provisions	4,233,853	17,876	4,251,729
Other liabilities	4,142,442	1,010	4,143,452
Total liabilities	**413,797,629**	**18,886**	**413,816,515**
EQUITY			
Share capital and premium issue of shares	40,034,550	-	40,034,550
Profit	9,561,784	17,506	9,579,290
Reserves	26,037,325	542	26,037,867
Total equity	**75,633,659**	**18,048**	**75,651,707**
TOTAL LIABILITIES AND EQUITY	**489,431,288**	**36,934**	**489,468,222**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overview of the activities of Strategic Segments (continued)

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2020

In thousands of RSD

	Komercijalna banka a.d., Beograd adjusted	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total adjusted
ASSETS					
Cash and cash funds held at the Central bank	80,045,107	1,911,252	4,935,711	-	86,892,070
Securities	153,776,323	1,265,605	3,244,162	152,566	158,438,656
Loans and receivables from banks and other financial organisations	17,301,332	607,317	940,455	16,379	18,865,483
Loans and receivables from clients	189,296,089	12,204,666	17,932,872	-	219,433,627
Intangible assets	510,669	29,266	38,478	-	578,413
Property, plant and equipment	6,045,330	352,977	344,748	144	6,743,199
Investment property	2,393,183	77,366	248,134	-	2,718,683
Current tax assets	12,237	-	7,347	77	19,661
Deferred tax assets	-	-	-	2,484	2,484
Fixed assets held for sale and assets from discontinued operations	130,426	138,179	102,058	-	370,663
Other assets	6,215,954	502,191	85,671	2,184	6,806,000
Total assets	**455,726,650**	**17,088,819**	**27,879,636**	**173,834**	**500,868,939**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overview of the activities of Strategic Segments (continued)

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2020 (continued)

In thousands of RSD

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd korigovano	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Ukupno korigovano
Deposits and other liabilities due to bank, other financial institutions and the Central bank	3,733,731	286,632	4,075,827	-	8,096,190
Deposits and other financial liabilities to clients	372,699,401	14,459,196	19,033,470	-	406,192,067
Provisions	2,528,051	110,585	42,251	15,459	2,696,346
Currents tax liabilities	-	502	1,577	-	2,079
Deferred tax liabilities	147,400	8,332	20,841	-	176,573
Other liabilities	4,975,476	178,329	415,181	892	5,569,878
Total liabilities	**384,084,059**	**15,043,576**	**23,589,147**	**16,351**	**422,733,133**
EQUITY					
Share capital and issue share premium	40,034,550	-	-	-	40,034,550
Accumulated result	4,229,514	(495,652)	373,793	16,639	4,124,294
Reserves	33,286,592	462,246	227,233	821	33,976,892
Non-controlling interests	-	-	70	-	70
Total equity	**77,550,656**	**(33,406)**	**601,096**	**17,460**	**78,135,806**
TOTAL LIABILITIES AND EQUITY	**461,634,715**	**15,010,170**	**24,190,243**	**33,811**	**500,868,939**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overview of the activities of Strategic Segments (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2021

In thousands of RSD

	Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Interest income	13,094,749	610,633	716,714	488	14,422,584
Interest expenses	(958,313)	(93,697)	(205,538)	-	(1,257,548)
Net interest gains	**12,136,436**	**516,936**	**511,176**	**488**	**13,165,036**
Income from fees and commissions	7,632,534	210,005	270,594	27,538	8,140,671
Expenses from fees and commissions	(1,909,661)	(85,559)	(67,578)	(269)	(2,063,067)
Net gains from fees and commissions	**5,722,873**	**124,446**	**203,016**	**27,269**	**6,077,604**
Net gain from change in fair value of financial instruments	4,823	-	-	1,949	6,772
Net gain on derecognition of financial instruments measured at fair value	197,243	-	-	14	197,257
Net income/expense from FX rates and the outcome of currency clause	1,672,240	14,180	2,276	(7)	1,688,689
Net gain/loss on impairment of financial assets not measured at fair value through profit or loss	15,772	(475,545)	(15,585)	-	(475,358)
Net loss on derecognition of investments in associates and joint ventures	(1,954,463)	-	-	-	(1,954,463)
Other operating income	210,846	6,499	12,798	-	230,143
Total operating income	**18,005,772**	**186,516**	**713,681**	**29,713**	**18,935,682**
Salaries, salary compensation and other personal expenses	(4,961,166)	(404,856)	(302,329)	(16,829)	(5,685,180)
Depreciation costs	(912,825)	(77,981)	(94,488)	(63)	(1,085,357)
Other income	587,010	34,480	27,646	11	649,147
Other expenses	(9,626,605)	(329,316)	(265,813)	(9,398)	(10,231,132)
Profit / loss before tax	**3,092,186**	**(591,157)**	**78,697**	**3,434**	**2,583,160**
Income tax	-	(1,261)	(3,413)	(2)	(4,676)
Profit/Loss on deferred taxes	182,315	15,790	715	289	199,109
Profit / loss after tax	**3,274,501**	**(576,628)**	**75,999**	**3,721**	**2,777,593**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overview of the activities of Strategic Segments (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2020

In thousands of RSD

	Komercijalna banka a.d. Beograd adjusted	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total adjusted
Interest income	13,185,934	724,595	820,920	536	14,731,985
Interest expenses	(1,130,408)	(116,409)	(197,145)	-	(1,443,962)
Net interest gains	**12,055,526**	**608,186**	**623,775**	**536**	**13,288,023**
Income from fees and commissions	6,688,682	225,244	264,867	26,692	7,205,485
Expenses from fees and commissions	(1,820,743)	(46,617)	(71,331)	(272)	(1,938,963)
Net gains from fees and commissions	**4,867,939**	**178,627**	**193,536**	**26,420**	**5,266,522**
Net gain from change in fair value of financial instruments	95,629	-	-	2,417	98,046
Net gain on derecognition of financial instruments measured at fair value	157,796	3,068	13,526	9	174,399
Net income/expense from FX rates and the outcome of currency clause	(61,471)	74,026	5,426	(1)	17,980
Net gain/loss on impairment of financial assets not measured at fair value through profit or loss	(1,089,366)	(94,687)	(80,183)	-	(1,264,236)
Other operating income	211,094	5,468	10,535	-	227,097
Total operating income	**16,237,147**	**774,688**	**766,615**	**29,381**	**17,807,831**
Salaries, salary compensation and other personal expenses	(5,819,946)	(288,339)	(368,040)	(15,465)	(6,491,790)
Depreciation costs	(938,963)	(89,651)	(107,505)	(49)	(1,136,168)
Other income	889,752	29,789	32,384	12	951,937
Other expenses	(6,674,208)	(297,400)	(265,220)	(10,855)	(7,247,683)
Profit / loss before tax	**3,693,782**	**129,087**	**58,234**	**3,024**	**3,884,127**
Income tax	-	(502)	(6,806)	(1)	(7,309)
Profit/Loss on deferred taxes	(1,264,085)	(5,814)	(161)	426	(1,269,634)
Profit / loss after tax	**2,429,697**	**122,771**	**51,267**	**3,449**	**2,607,184**

Within the stated consolidated profit, profit attributable to non-controlling interest is RSD 1 thousands.

6. SEGMENT REPORTING (continued)

6.2. Operational segments report - business lines

The Parent bank has three operating segments:

- Transactions with legal entities Parent bank - Includes loans, deposits and other transactions with clients to legal entities other than banks,
- Retail banking of the parent bank - Includes loans, deposits and other transactions with clients to individuals, micro clients, entrepreneurs and farmers, and
- Investment banking and interbank banking of the Parent Bank - Includes transactions with securities and other financial instruments, as well as transactions with banks.

Since the associate and subsidiary of the Group operate as independent entities in their local markets and that the results thus obtained are used to measure their business performance, that the business of individual members of the Group as strategic segments is shown under Note 6.1, and that the Parent bank represents 99.96% of the consolidated balance sheet, for reporting purposes by operational segments at the Group level, associate and subsidiary of the Group are shown under a one segment.

When considering the profitability / results of each segment of the Parent Bank, in addition to the income and expenses generated from dealing with clients, they also include a portion of the net income / expenses that the Parent Bank reported from the transactions with other members.

Revenues from collected written-off receivables in the total amount of RSD 2,566,904 thousand, provisions for severance pay under parent bank programs in the total amount of RSD 1,610,928 thousand, as well as net provisions for legal costs in the total amount of RSD 1,441,477 thousand, had a significant impact on the Group's operations in 2021.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the segments).

Each business segment is indebted to direct operational costs that relate to that segment as well as part of the indirect operating costs (the allocation of these costs to the segments is made using the appropriate keys used to allocate the cost of cost centers to profit centers).

Direct operating expenses at the Group level amount to RSD 9,012,263 thousand and account for 67% of the total operating costs. Direct operating costs mostly comprise costs that are directly related to segment segments (salaries, rental costs, depreciation costs, marketing and other costs), and to a lesser extent they are also costs that are allocated to segments based on a management decision.

The segment of retail banking of the Parent bank refers to the amount of RSD 6,079,203 thousand of direct costs (67% of the total direct costs of the Group), which is a consequence of the large business network and the number of employees involving in retail banking.

Under the aforementioned, the Group incurred profit before tax in the business year 2021 in the amount of RSD 2,583,160 thousand.

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2021 is shown below:

In thousands of RSD

As of December 31, 2021	Retail banking of the Parent Bank	Corporate banking of the Parent Bank	Investment banking and interbank operations of the Parent Bank	Other operations of the Parent Bank	Subsidiaries and associates	Adjustments and consolidation	Total Group (consolidated)
Revenues and expenses							
Interest income	7,052,260	2,167,413	3,875,076	-	1,327,835	-	14,422,584
Interest expenses	(667,468)	(46,131)	(220,575)	(24,139)	(299,235)	-	(1,257,548)
Net interest	6,384,792	2,121,282	3,654,501	(24,139)	1,028,600	-	13,165,036
Net interest from related party transactions	-	-	8,673	-	(8,673)	-	-
Net fees	4,506,477	854,181	362,215	-	354,731	-	6,077,604
Net fees from related party transactions	-	-	14,491	-	(14,491)	-	-
Result before impairment	10,891,269	2,975,463	4,039,880	(24,139)	1,360,167	-	19,242,640
Net impairment income / expenses	(923,178)	471,169	467,781	-	(491,130)	-	(475,358)
Result before operating costs	9,968,091	3,446,632	4,507,661	(24,139)	869,037	-	18,767,282
Direct operating costs	(6,079,203)	(1,741,152)	(217,328)	-	(974,580)	-	(9,012,263)
Net income/expenses from exchange rate differences	-	-	53,070	-	16,449	1,619,170	1,688,689
Net other income and expenses	(2,096,554)	(350,930)	(127,306)	-	26,851	(1,966,860)	(4,514,799)
Net other operating income from related party transactions	115	115	115	-	(345)	-	-
Result before intangible costs	1,792,449	1,354,665	4,216,212	(24,139)	(62,588)	(347,690)	6,928,909
Intangible costs	(2,214,135)	(1,360,391)	(301,277)	-	(469,946)	-	(4,345,749)
Result before tax	**(421,686)**	**(5,726)**	**3,914,935**	**(24,139)**	**(532,534)**	**(347,690)**	**2,583,160**

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

In thousands of RSD

As of December 31, 2021	Retail banking of the Parent Bank	Corporate banking of the Parent Bank	Investment banking and interbank operations of the Parent Bank	Other operations of the Parent Bank	Subsidiaries and associates	Adjustments and consolidation	Total Group (consolidated)
Assets per segments							
Cash and cash equivalents	-	-	82,055,481	-	-	-	82,055,481
Cash from related party transactions	-	-	-	-	53	(53)	-
Loans and receivables with banks	-	-	29,114,381	-	16,320	-	29,130,701
Loans and receivables with banks From related party transactions	-	-	841,324	-	-	-	-
Loans and receivables to clients	119,203,834	89,841,108	-	-	-	-	209,044,942
Securities	-	-	149,588,755	-	155,264	-	149,744,019
Investments in associates and subsidiaries	-	-	1,628,063	-	-	(149,063)	1,479,000
Other	-	-	-	18,008,472	5,607	-	18,014,079
Other from related party transactions	-	-	-	311	-	(311)	-
	119,203,834	**89,841,108**	**262,386,680**	**18,008,783**	**177,244**	**(149,427)**	**489,468,222**
Liabilities per segments							
Liabilities to banks	-	-	2,134,916	-	-	-	2,134,916
Liabilities to banks from related party transactions	-	-	53	-	-	(53)	-
Liabilities to customers	343,567,750	48,698,634	11,020,034	-	-	-	403,286,418
Other	-	-	-	8,376,296	18,885	-	8,395,181
Other from related party transactions	-	-	-	-	311	(311)	-
	343,567,750	**48,698,634**	**13,155,003**	**8,376,296**	**19,196**	**(364)**	**413,816,515**

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2020 is shown below:

In thousands of RSD

As of December 31, 2020	Retail banking of the Parent Bank	Corporate banking of the Parent Bank	Investment banking and interbank operations of the Parent Bank	Other operations of the Parent Bank	Subsidiaries and associates	Adjustments and consolidation	Total Group (consolidated)
Income and expenses							
Interest incomes	6,904,573	2,151,235	4,130,126	-	1,546,051	-	14,731,985
Interest expenses	(772,562)	(170,956)	(171,116)	(15,774)	(313,554)	-	(1,443,962)
Net interest gains	6,132,011	1,980,279	3,959,010	(15,774)	1,232,497	-	13,288,023
Net interest from related party transactions	-	-	13,764	-	(13,764)	-	-
Net fees	3,627,660	738,724	501,555	-	398,583	-	5,266,522
Net fees from related party transactions	-	-	7,469	-	(7,469)	-	-
Profit before impairment	9,759,671	2,719,003	4,481,798	(15,774)	1,609,847	-	18,554,545
Net impairment income / expenses	(186,045)	(903,135)	(186)	-	(174,870)	-	(1,264,236)
Impairment from related party transactions	-	-	17,334	-	1,308	(18,642)	-
Result before operating costs	9,573,626	1,815,868	4,498,946	(15,774)	1,436,285	(18,642)	17,290,309
Direct operating costs	(5,822,469)	(1,832,875)	(216,522)	-	(965,231)	-	(8,837,097)
Net exchange rate gain/loss	-	-	(61,471)	-	79,451	-	17,980
Net exchange difference from related party transactions	-	-	65,875	-	(65,430)	(445)	-
Net other income/expenses	(1,288,210)	529,337	152,079	-	59,216	-	(547,578)
Net other income/expenses from related party transactions	98	98	98	-	(294)	-	-
Profit before indirect operating expenses	2,463,045	512,428	4,439,005	(15,774)	543,997	(19,087)	7,923,614
Intangible expenses	(2,027,685)	(1,286,221)	(286,279)	-	(439,302)	-	(4,039,487)
Result before tax	**435,360**	**(773,793)**	**4,152,726**	**(15,774)**	**104,695**	**(19,087)**	**3,884,127**

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

In thousands of RSD

As of December	Retail banking of the Parent Bank	Corporate banking of the Parent Bank	Investment banking and interbank operations of the Parent Bank	Other operations of the Parent Bank	Subsidiaries and associates	Adjustments and consolidation	Total Group (consolidated)
Assets per segment							
Cash and cash equivalents	-	-	80,045,107	-	6,846,952	11	86,892,070
Cash from related party transactions	-	-	-	-	5,549	(5,549)	-
Due from banks	-	-	17,300,746	-	1,562,936	1,801	18,865,483
Due from banks from related party transactions	-	-	841,324	-	1,250,035	(2,091,359)	-
Due from customers	109,884,102	79,411,987	-	-	30,137,538	-	219,433,627
Investment securities	-	-	153,776,323	-	4,479,827	182,506	158,438,656
Investment in subsidiaries	-	-	3,433,697	-	-	(3,433,697)	-
Other	-	-	-	14,734,122	2,504,981	-	17,239,103
Other from related party transactions	-	-	-	315	-	(315)	-
	109,884,102	**79,411,987**	**255,397,197**	**14,734,437**	**46,787,818**	**(5,346,602)**	**500,868,939**
Liabilities per segment							
Liabilities to banks	-	-	3,733,730	-	4,362,460	-	8,096,190
Liabilities to banks from related parties transactions	-	-	1,255,585	-	841,324	(2,096,909)	-
Liabilities to customers	310,252,041	47,903,374	14,543,986	-	33,492,666	-	406,192,067
Other	-	-	-	7,652,144	793,949	(1,217)	8,444,876
Other from related parties transaction	-	-	-	-	315	(315)	-
	310,252,041	**47,903,374**	**19,533,301**	**7,652,144**	**39,490,714**	**(2,098,441)**	**422,733,133**

7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUE

The methodology and assumptions used to calculate fair (fair) values for those financial assets and liabilities that are not recorded at fair value in the financial statements are as follows:

(i) The assets and liabilities in which the present value in books is approximately equal to the fair value

With financial assets and liabilities that are highly liquid and with a short-term maturity (up to one year), it is assumed that the present book value is approximately equal to fair value. This assumption is also used in demand deposits, savings deposits with no specified maturity and all financial instruments with a variable interest rate.

(ii) Instruments with a fixed interest rate

The fair value of financial assets and liabilities with fixed interest rates, carried at amortized cost, is estimated by comparing market interest rates at the moment of initial recognition with current market interest rates for financial instruments of similar characteristics. The estimated fair value of assets and liabilities with a fixed interest rate is to a large extent corresponds to the carrying amount, given that the agreed interest rates do not deviate from the market rates. Members of the Group do not have materially significant deviations on this basis.

8. NET INTEREST INCOME / (EXPENSES)

Net interest income / (expenses) consist of:

	In thousands of RSD	
	Year ended December 31,	
Income from:	**2021**	**2020**
Banks and REPO placements	56,561	63,848
Clients	10,427,444	10,393,677
Central Bank (liquid assets and required reserves deposits)	28,635	100,519
Securities stated at fair value through profit or loss	35,541	-
Securities not stated at fair value through profit or loss	3,874,176	4,173,793
Based on the leasing contract – derecognition	227	148
Interest income	**14,422,584**	**14,731,985**
Expenses from:		
Deposits and other liabilities to banks and other financial oragnisation	(160,989)	(118,948)
Deposits to customers	(1,013,380)	(1,255,990)
Received loans	(38,536)	(41,590)
Securities not stated at fair value through profit or loss	(11,829)	-
Leases contracts	(23,213)	(27,434)
Actuarial computing	(9,601)	-
Interest costs	**(1,257,548)**	**(1,443,962)**
Net interest income	**13,165,036**	**13,288,023**

All interest income and expense shown in the table above are computed by effective interest method, except those stated at fair value through profit or loss (computed by agreed interest rate), leases agreements (by incremental borrowing rates) and those arose from actuarial calculation (computed by discount rate in accordance with IAS 19).

9. NET INCOME / (EXPENSES) FROM THE FEES AND COMMISSIONS

Net gains from fees and commissions / (expenses) consist of:

	In thousands of RSD Year ended December 31, 2021	2020
Income in RSD		
Fees from payment services	3,728,064	3,317,831
Fees for granted loans and guarantees	150,833	122,556
Fees for purchase of foreign currency	602,984	551,327
Fees for brokerage and custody services	32,117	26,004
Card payment fees	2,204,650	1,878,545
Fees based on inquiries in the Credit Bureau	62,578	50,928
Fees and commissions on other banking services	557,646	497,324
	7,338,872	**6,444,515**
Revenues in foreign currency		
Fees for payment services	353,474	356,028
Fees for granted loans and guarantees	46,516	52,962
Fees for brokerage and custody services	41,761	33,264
Card payment fees	278,662	229,823
Fees and commissions on other banking services	81,386	88,893
	801,799	**760,970**
	8,140,671	**7,205,485**
Expenses in RSD		
Fees for payment services	(235,299)	(167,750)
Foreign currency sale and purchase fees	(15,828)	(31,696)
Card payment fees	(572,276)	(437,974)
Credit Bureau fees	(56,595)	(47,893)
Fees and commissions on other banking services	(60,622)	(220,054)
	(940,620)	**(905,367)**
Expenses in foreign currency		
Fees for payment services	(134,364)	(144,936)
Card payment fees	(836,906)	(797,297)
Fees and commissions on other banking services	(151,177)	(91,363)
	(1,122,447)	**(1,033,596)**
	(2,063,067)	**(1,938,963)**
Net fee and commission income	**6,077,604**	**5,266,522**

10. NET GAINS FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains from changes in fair value of financial instruments:

	In thousands of RSD Year ended December 31, 2021	2020
Gains on the fair value adjustment of securities – investment units	6,829	7,339
Revenue from the change in the fair value of securities – treasury bills and bonds of the Republic of Serbia and other financial instruments	-	90,707
Total revenues	**6,829**	**98,046**
Expenses from the change in the fair value of derivatives held for trading - SWAP		-
Losses on the fair value adjustment of securities – investment units	(57)	-
Losses on the changes in value of securities - bonds		-
Total expenses	**(57)**	**-**
Net trading gain	**6,772**	**98,046**

11. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Net gains from derecognition of the financial instruments measured at fair value:

	In thousands of RSD Year ended December 31, 2021	2020
Gains arising from the derecognition of financial instruments valued at fair value through other comprehensive income	163,816	87,372
Gains arising from the derecognition of financial instruments valued at fair value through income statement	39,053	122,016
Gains on derecognition of derivatives valued at fair value through income statement - FORWARD	-	4,537
Losses on derecognition of financial instruments measured at fair value through other results	(348)	-
Losses arising from derecognition of derivatives valued at fair value through profit and loss – FORWARD	-	(202)
Losses arising from the derecognition of financial instruments valued at fair value through profit and loss	(5,264)	(39,324)
Net gain	**197,257**	**174,399**

11. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

Gains arising from the derecognition of financial instruments valued at fair value through other comprehensive income in the amount of RSD 168,816 thousand relate to the bonds of the Republic of Serbia in the foreign currency.

Gains arising from the derecognition of securities at fair value through income statement in the amount of RSD 39,053 thousand relate to bonds of the Republic of Serbia in the amount of RSD 26,912 thousand, and bonds of the Republic of Srpska in foreign currency in the amount of RSD 10,019 thousand, bonds of foreign companies in the amount of RSD 286 thousand and investment units in RSD in the amount of 1,836 thousand.

Losses on derecognition of securities and other placements at fair value through profit or loss in the amount of RSD 5,264 thousand relate to: bonds of the Republic of Serbia in RSD in the amount of RSD 4,489 thousand and bonds of the Republic of Serbia in foreign currency in the amount of RSD 775 thousand.

12. NET EXCHANGE RATE GAINS / (LOSSES) AND EFFECTS OF AGREED CURRENCY CLAUSE

	In thousands of RSD	
	Year ended December 31,	
	2021	**2020**
Positive currency clause effect - corporate clients	91,548	150,499
Positive currency clause effect - value adjustment of securities	40	191
Foreign exchange gains - value adjustment of liabilities	62	220
Positive currency clause effect - leasing contract	335	986
Positive currency clause effect	6,165,209	5,017,741
Total gains	**6,257,194**	**5,169,637**
Negative currency clause effect - corporate clients	(76,206)	(163,508)
Negative currency clause effect - value adjustment of securities	(40)	(211)
Foreign exchange losses – value adjustment of liabilities	(107)	(203)
Negative currency clause effect – leases agreements	(412)	(895)
Negative currency clause effect	(4,491,740)	(4,986,840)
Total losses	**(4,568,505)**	**(5,151,657)**
Net gains	**1,688,689**	**17,980**

13. NET INCOME (LOSS) FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net impairment charges relate to:

	In thousands of RSD	
	Year ended December 31,	
	2021	**2020**
Impairment allowance of financial assets measured at amortised cost	(9,496,962)	(4,882,682)
Provisions for off-balance sheet items	(431,459)	(250,361)
Impairment allowance of direct write-off of placements	(8,895)	(815)
Impairment allowance for debt securities measured through other comprehensive income	(418,920)	(73,896)
Losses arising from the modification of financial instruments	-	(342,435)
Reversal of impairment allowance of financial assets valued at amortised cost	6,748,516	3,631,798
Reversal of provisions for off-balance sheet items	431,585	211,244
Income from collection of previously written-off receivables	2,566,904	396,134
Reversal of allowance for debt securities measured through other comprehensive income	133,873	46,680
Revenues from modification of financial instruments	-	97
Total	**(475,358)**	**(1,264,236)**

In 2021, collected written-off receivables amount to RSD 2,566,904 thousand. The major portion refers to the collection of receivables from off-balance sheet items previously written-off through transferring figure from the items of balance sheet to the off-balance sheet items, of which RSD 166,839 thousand are from collection of loans placed to citizens, and the remaining amount of RSD 2,400,065 thousand is collection of corporate loans.

By the date of issue of these financial statements the Group did not make materially significant collections from impaired placements that would affect the reversal of impairment.

Effects on credit risk of debt securities in the amount of net expenses of RSD 295,268 thousand The parent bank recognized the figure within equity losses on debt instruments (expenses of debt securities at fair value through other result in the amount of RSD 405,599 thousand and income on the same basis in the amount of RSD 110,331 thousand). These items are excluded from the structure of the table of changes in impairment allowance account and off-balance sheet provisions.

13. NET INCOME (LOSS) FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

MOVEMENTS ON IMPAIRMENT ALLOWANCE ACCOUNTS AND PROVISION FOR OFF-BALANCE SHEET ITEMS

	Loans and receivables due from banks (Note 23.2)	Loans and receivables from clients (Note 24.2)	Securities - local government and corporate bonds, (Note 22)	Investments in associates and joint ventures (Note 25)	Investments – subsidiaries	Other assets (Note 31)	Off-balance sheet liabilities (Note 34)	Total
Balance as at January 1 , 2021	**4,291**	**12,188,217**	**4,213**	**-**	**-**	**2,921,895**	**249,508**	**15,368,124**
New impairment allowance	52,463	9,011,042	15,735	-	-	417,722	431,459	9,928,421
Decrease in impairment allowance	(34,801)	(5,693,193)	(11,707)	(20,383)	(760,221)****	(228,211)	(431,585)	(7,180,101)
Foreign exchange differences	138	33,368	1		-	1,721	(2)	35,226
Permanent write-offs	-	(5,510,592)	-	-	-	(16,322)	-	(5,526,914)
Effect of change within Group	(1,190)	(644,202)	-	-	2,047,191	(1,013,439)	(40,560)	347,800
Other changes	-	(255,645)*	-	898,593**	(1,286,970)**	(991,575)***	(1)	(1,635,598)
Balance as of December 31, 2021	**20,901**	**9,128,995**	**8,242**	**878,210**	**-**	**1,091,791**	**208,819**	**11,336,958**

** effect of recognizing interest income on impaired loans by applying an alternative concept of IRC methods related to netting interest income and impairment expenses*
*** transfer of impairment of investments in subsidiaries to associates in the amount of RSD 898,593 thousand and sale of subsidiaries in the amount of RSD 388,377 thousand*
**** major portion pertain to Parent Bank - cancellation of the adjustment from impairment of assets acquired through collection of receivables and recording on the basic account*
*****decrease in impairment arose from investment in Komercijalna Banka a.d. Banja Luka*

In 2021, the Bank increased net expenses from impairment of placements at amortized cost, off-balance provisions in total amount of RSD 2,748,320 thousand.

Among other changes on the impairment accounts and provisions the amount of RSD 5,525,203 thousand relates to permanent write-off that the Bank carried out in 2021, i.e. transfer from on-balance to off-balance records on the basis of the decisions of the NBS of the accounting write-off.

14. NET GAINS / (LOSSES) FROM DERECOGNITION OF INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

In thousands of RSD

	Year ended December 31, 2021	2020
Loss from derecognition of investments in subsidiaries	(1,954,463)	-
Net loss	**(1.954.463)**	**-**

The stated loss refers to the effects of derecognition of investments in subsidiaries (link to Note 36), adjusted for revaluation reserves from debt securities.

15. OTHER OPERATING INCOME

	In thousands of RSD Year ended December 31, 2021	2020
Other income from operations	211,478	214,999
Revenues from dividends and shares	18,667	12,098
Net income	**230,145**	**227,097**

In the other operating income from operations in the amount of RSD 211,476 thousand, the most significant amounts relate to revenue of Parent bank from lease of properties, including advances received for rental in the amount of RSD 108,613 thousand and refunds of court costs and utility costs in the amount of RSD 62,250 thousands, revenues from charged costs for the use of business mobile phones upon employee authorization and the cost of using business vehicles for private purposes in the amount of RSD 16,734 thousand.

During 2021, the Parent Bank received dividends from other participations and shares in amount of RSD 18,667 thousand (2020: RSD 12,098 thousand), which form part of the position of Other income, and dividends from shares in Dunav Osiguranje ADO of RSD 9,425 thousand, VISA Inc. in the amount of RSD 7,140 thousand and MasterCard in the amount of RSD 2,102 thousand.

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Costs of salaries, salary compensation and other personal expenses consist of:

	In thousands of RSD Year ended December 31, 2021	2020
Net salaries	3,125,944	3,034,771
Net benefits	542,285	482,174
Payroll taxes	445,246	430,752
Payroll contributions	986,214	1,008,491
Considerations paid to seasonal and temporary staff	9,380	1,454
Provisions for retirement benefits – net	(92,933)	104,231
Other personal expenses	669,044	1,429,917
Total	**5,685,180**	**6,491,790**

Salaries, benefits and other personal expenses in the amount of RSD 5,685,180 thousand are lower by RSD 806,610 thousand or 12.43% compared to the same period last year. Other personal expenses are mostly related to annual bonuses to employees.

17. DEPRECIATION COSTS

	In thousands of RSD Year ended December 31, 2021	2020
Amortization costs – intangible assets (Note 26.2)	260,343	257,950
Depreciation costs – property and equipment (Note 27.2)	364,454	399,427
Depreciation costs – investment property (Note 28.1)	10,209	12,482
Depreciation costs – right of use assets (Note 27.2)	450,351	466,309
Total	**1,085,357**	**1,136,168**

18. OTHER INCOME

Other income consists of:

	In thousands of RSD Year ended December 31, 2021	2020
Income from reversal of unused provisions for litigations (Note 33.)	74,459	790,393
Gains on sale of fixed assets and assets held for sale	36,787	2,159
Income from sale of real estate acquired through collection of receivables	127,828	-
Income from decrease of liabilities	2,268	3,733
Income from changes in the value of investment property (Note 28.1)	107,537	30,335
Income from changes in the value of assets held for sale	17,002	-
Income from changes in the value of assets acquired through the collection of receivables	112,014	-
Surpluses	-	308
Other income	171,252	125,009
Total	**649,147**	**951,937**

Income from changes in the value of investment property in the amount of 107,537 thousand dinars relate to the recording of positive outcomes of valuations of investment property in accordance with the amended accounting policy for subsequent valuation of investment property of Parent Bank.

19. OTHER EXPENSES

Other expenses include:

	In thousands of RSD Year ended December 31, 2021	2020
Cost of materials	343,030	346,506
Cost of production services	1,887,204	1,399,802
Non-material costs (without taxes and contributions)	3,311,041	2,670,668
Tax costs	190,170	184,251
Contributions costs	726,211	732,828
Other operating costs	34,986	18,507
Other expenses	519,980	408,279
Losses from sales of PP&E and intangible assets	-	-
Losses from disposals and write-offs of PP&E, intangible assets and inventories	12,377	705
Expenses from value changes of investment property	40,620	463,082
Expenses from value changes of assets held for sale	6,015	10,293
Expenses from value changes of assets acquired through collection of receivables	32,634	-
Expenses on provisions for litigation (Note 33)	1,515,936	1,012,762
Expenses from provisions for severance pay acc. to voluntary severance package (Note 33)	1,610,928	-
Total	**10,231,132**	**7,247,683**

19. OTHER EXPENSES (continued)

a) Other expenses

Within the position of other expenditures in the amount of RSD 498,554 thousand, among others the following are recorded expenditures arising from paid invoices of insurance companies for life insurance policies of clients in favour of the Bank in the amount of RSD 249,870 thousand, and whose payment was covered by the Bank. The specified policies are used as collateral for loans granted to individuals. Additionally, this position also includes expenditures related to insurance policies for users of current account sets and travel insurance international payment cards in the amount of RSD 23,033 thousand.

b) Provision for legal costs

Expenses arising from provisions for legal costs totalling to RSD 1,492,830 thousand (Note 33) are result of increased expenditures for 17,733 new cases during the year 2021, and increase provisions for active cases from previous years.

c) Expenses arising from provisions for severance pay accor. to voluntary severance package

Expenses arising from provisions for severance pay acc. to voluntary severance package in the amount of RSD 1,610,928 thousand (Note 32) relate to the recognition of provisions for reorganization costs made on the basis of the Bank's Voluntary Severance Package adopted by the Parent Bank.

20. INCOME TAX – current tax and deferred tax

The parent bank does not have the possibility to perform tax consolidation on the basis of applicable regulations in the Republic of Serbia. The final amounts of income tax liabilities are determined by the Group members by applying the tax rate to the tax base determined by local tax regulations and disclosed in individual notes to their annual statutory financial statements.

Tax rates for the year 2021 are:

Serbia	15%
Montenegro	9%
Bosnia and Hercegovina	10%

Components of income taxes as of December 31 were as follows:

	In thousands of RSD Year ended December 31, 2021	2020
Tax expense for period	(7,676)	(7,309)
Gains from deferred taxes	373,225	122,101
Losses from deferred taxes	(174,116)	(1,391,735)
Total	**194,433**	**(1,276,943)**

Due to the impossibility of tax consolidation, the components of income tax are disclosed separately as follows:

20.1. Parent Bank

20.1.1. Components of income taxes as of December 31 were as follows:

	In thousands of RSD Year ended December 31, 2021	2020
Gains from deferred taxes	348,040	120,049
Losses from deferred taxes	(165,725)	(1,384,134)
Total	**182,315**	**(1,264,085)**

Upon submitted tax return and tax balance for 2019, the Bank paid an advance income tax for 2020, until the submission of the tax balance for 2020. After the submission of the tax return and the tax balance for 2020 on June 18, 2021, and bearing in mind that the Bank for 2020 has no income tax duty remained, the Bank overpaid the amount. Input taxes can be used for future periods, a request for a refund can be submitted or the amount will be used to cover other tax liabilities. The bank paid RSD 18,911 thousand in advance, as shown in the account of receivables for overpaid taxes on December 31, 2021.

20. INCOME TAX (continued)

20.1. Parent Bank (continued)

20.1.2. Reconciliation of the effective tax rate is presented in the table below:

In thousands of RSD

	2021	2021	2020	2021
Profit for the year before taxes		**3,463,384**		**4,192,846**
Tax calculated using the local income tax rate	15%	519,508	15%	628,927
Expenses not recognized for tax purposes	1.73%	60,036	3.64%	152,443
Tax effects of the net capital losses /gains	-0.17%	(5,875)	-0.01%	(384)
Tax effects of income reconciliation	-0.73%	(25,337)	-2.77%	(116,098)
Tax effects on IFRS 9	-1.01%	(34,851)	-0.83%	(34,851)
Tax credit received and used in the current year	0.86%	29,732	-1.14%	(47,600)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-15.68%	(543,213)	-13.89%	(582,437)
Correction of tax effects under deferred taxes	-5.26%	(182,315)	30.15%	1,264,085
Tax effects stated within the income statement		**182,315**		**(1,264,085)**

20.1.3 Movements in deferred taxes as at December 31 are presented as follows:

In thousands of RSD

	Year ended December 31, 2021	2020
Balance as of January 1	(147,400)	1,074,197
Occurrence and reversal of temporary differences	656,642	(1,221,597)
Balance as of December 31	**509,242**	**(147,400)**

20. INCOME TAX (continued)

20.1. Parent Bank (continued)

20.1.4. Deferred tax assets and liabilities

20.1.4.1. Deferred tax assets and liabilities refer to:

In thousands of RSD

	2021			2020		
	Asset	Liability	Net	Asset	Liability	Net
Difference in the present value of fixed assets for tax and financial reporting purposes	-	(26,129)	(26,129)	36,037	-	36,037
Tax losses carried forward	29,732		29,732	-	-	-
Outcomes of change in values of debt and equity securities	127,073	(644,075)	(517,002)	1,779	(968,884)	(967,105)
Long-term provisions for retirement benefits	41,361	-	41,361	58,265	-	58,265
Impairment of assets	357,279	-	357,279	342,947	-	342,947
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period	821	-	821	762	-	762
Accrued and unpaid public duties	229	-	229	112	-	112
First implementation of IFRS 9	34,851	-	34,851	69,702		69,702
Tax credit from loan conversion to CHF	76,119	-	76,119	76,119	-	76,119
Provisions for legal costs	390,567	-	390,567	256,095	-	256,095
Actuarial gains on provisions for employee severance payments	240	-	240	-	(20,334)	(20,334)
Accrued and unpaid severance pay	121.174		121,174	-	-	-
	1,179,446	**(670,204)**	**509,242**	**841,818**	**(989,218)**	**(147,400)**

Within the tax period from January 1 to December 31, 2021, incurred loss amounted to RSD 198,215 thousand and thus a deferred tax asset in the amount of RSD 29,732 thousand was established.

Tax losses carried forward that are not recorded in the books of the Bank and on basis of which deferred tax assets were not formed as of December 31, 2020 amounted to RSD 8,685,280 thousand. The tax credit expired in 2021.

Deferred tax assets were not formed for tax credits on the basis of fixed asset investments in the amount of RSD 10,724 thousand.

20. INCOME TAX (continued)

20.1. Parent Bank (continued)

20.1.4. Deferred tax assets and liabilities (continued)

20.1.4.2. Overview of tax credits for which deferred tax assets were not recognized:

In thousands of RSD

Type of tax credit	Year	Amount as at December 31, 2021	Amount as at December 31, 2020	Expiration date for use
Tax losses carried forward	2016	-	8,685,280	2021
Total tax losses		**-**	**8,685,280**	
Impact of tax losses on future income tax (15%)		-	1,302,792	from 2019 -2021
Tax credit on the basis of investment in fixed assets	2013	10,724	11,766	2023
Total to reduce future income tax liabilities		**10,724**	**1,314,558**	

20.1.4.3. Movements in temporary differences during 2021 and 2020 are shown as follows:

In thousands of RSD

2021	As at January 1,	Through profit or loss account	Through Other comprehensive income	Directly through retained earnings	As at December, 31
Property, plant and equipment	36,037	(65,816)	5,513	(1,863)	(26,129)
Tax losses carried forward	-	29,732	-	-	29,732
Securities	(967,105)	-	450,103	-	(517,002)
Long term provisions for employee benefits	58,265	(16,904)	-	-	41,361
Actuarial gains	(20,334)	-	20,574	-	240
Impairment of assets	342,947	14,332	-	-	357,279
Remuneration of employees according to article 9. p. 2. LMSSC	762	59	-	-	821
Accrued and unpaid public duties	112	117	-		229
First-time Adoption of IFRS 9	69,702	(34,851)	-	-	34,851
Tax credit based on conversion of CHF loans	76,119	-	-		76,119
Provisions for legal costs	256,095	134,472	-	-	390,567
Accrued and unpaid severance pay	-	121,174	-	-	121,174
Total	**(147,400)**	**182,315**	**476,190**	**(1,863)**	**509,242**

In thousands of RSD

2020	As at January 1,	Through profit or loss account	Through Other comprehensive income	Directly through retained earnings	As at December, 31
Property, plant and equipment	39,299	(5,764)	2,502	-	36,037
Tax losses carried forward	1,259,350	(1,259,350)	-	-	-
Securities	(1,007,684)	-	40,579	-	(967,105)
Long term provisions for employee benefits	53,838	4,427	-	-	58,265
Actuarial gains	(19,741)	-	(593)	-	(20,334)
Impairment of assets	324,857	18,090	-	-	342,947
Remuneration of employees according to Article 9. p. 2. LMSSC	1,213	(451)	-	-	762
Accrued and unpaid public duties	163	(51)	-	-	112
First-time Adoption of IFRS 9	104,552	(34,850)	-	-	69,702
Tax credit based on conversion of CHF loans	76,119	-	-	-	76,119
Provisions for legal costs	242,231	13,864	-	-	256,095
Total	**1,074,197**	**(1,264,085)**	**42,488**	**-**	**(147,400)**

20. INCOME TAX (continued)

20.1. Parent Bank (continued)

20.1.5 Tax effects relating to Other comprehensive income

In thousands of RSD

	2021			2020		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to change in fair value of equity shares and security (increase in equity and debt securities)	(2,165,395)	324,809	(1,840,586)	(262,464)	39,369	(223,095)
Net decrease in actuarial loss / gain	(137,159)	20,574	(116,585)	3,954	(593)	3,361
Changes in properties value	-	5,513	5,513	7,894	2,502	10,396
Decrease due to change in fair value of equity shares and security (decrease in equity and debt securities)	(835,289)	125,294	(709,995)	(8,064)	1,210	(6,854)
Total	**(3,137,843)**	**476,190**	**(2,661,653)**	**(258,680)**	**42,488**	**(216,192)**

20. INCOME TAX (continued)

20.2. Komercijalna Banka a.d. Podgorica

20.2.1. Components of income taxes as of December 31 were as follows:

In thousands of RSD

	Year ended December 31, 2021	2020
Tax expense for period	(1,261)	(502)
Gains from deferred taxes	24,181	1,626
Loss from deferred taxes	(8,391)	(7,440)
Total	**14,529**	**(6,316)**

20.2.2. Reconciliation of the effective tax rate is presented in the table below:

	2021	2021	2020	2020
Profit / (loss) before tax		**(603,261)**		**56,128**
Tax calculated at the domestic income tax rate of 9%	9.00%	(54,293)	9.00%	5,936
Tax effects of net capital losses / gains	-0.21%	(1,261)	-0.89%	(502)
Non-tax deductible expenses	13.47%	81,224	5.56%	3,120
Tax credit-received and used in the current year	-4.26%	(25,669)	-15.24%	(8,554)
Effective income tax	-0.21%	(1,261)	0.89%	502
Correction of tax effects based on deferred taxes	2.62%	15,790	10.36%	5,814
Tax effects shown in the income statement - tax expense for period		**14,529**		**(6,316)**

20.3. Komercijalna Banka a.d. Banja Luka

20.3.1. Components of income taxes as of December 31 were as follows:

In thousands of RSD

	Year ended December 31, 2021	2020
Tax expense for period	(3,413)	(6,806)
Deferred tax gain / loss	715	(161)
Total	**(2,698)**	**(6,967)**

20.3.2. Reconciliation of the effective tax rate is presented in the table below:

	2021	2021	2020	2020
Profit / (loss) before tax		**69,743**		**47,889**
Tax calculated at the domestic income tax rate	10.00%	7,965	10.00%	8,707
Non-tax deductible expenses	5.89%	4,106	20.09%	9,619
Income exempt from tax	-23.05%	(8,658)	-23.05%	(11,519)
Effective income tax	4.89%	3,413	14.21%	6,806
Correction of tax effects under deferred taxes	-1.03%	(715)	0.34%	161
Tax effects shown in the income statement - tax expense for period		**(2,698)**		**(6,967)**

20. INCOME TAX (continued)

20.4. UCITS Fund Management Company KomBank INVEST a.d., Belgrade

20.4.1. Components of income taxes as of December 31 were as follows:

In thousands of RSD

	Year ended December 31, 2021	2020
Tax expense for period	(2)	(1)
Gains from deferred taxes	289	426
Total	**287**	**425**

20.4.2. Reconciliation of the effective tax rate is presented in the table below:

	2021	2021
Profit / (loss) before tax	**636**	**681**
Tax calculated at the domestic income tax rate of 15%	95	102
Tax effects of net capital losses / gains	2	1
Tax effects of the difference between depreciation for tax purposes and accounting depreciation	36	29
Correction of tax effects (used and new effect)	(133)	(132)
Other	1	1
Tax effects shown in the income statement	**(2)**	**(1)**
Effective tax rate	**0.15%**	**0.15%**

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK

Cash and assets held with the central bank include:

	In thousands of RSD	
	Year ended December 31,	
	2021	**2020**
In RSD		
Cash on hand	4,653,308	4,572,746
Gyro account	24,859,789	24,851,040
Surplus of liquidity assets deposited	-	7,500,000
Other RSD cash funds	99	99
	29,513,196	**36,900,365**
In foreign currency		
Cash on hand	11,906,740	11,300,634
Required reserve held with the NBS	39,019,097	36,879,516
Other cash funds	1,616,448	1,788,035
	52,542,285	**49,968,185**
Total	**82,055,481**	**86,892,070**
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 23.1)	17,601,652	11,542,557
Foreign currency required reserves	(39,019,097)	(36,879,515)
Surplus of liquidity assets deposited	-	(7,500,000)
	(21,417,445)	**(32,836,958)**
Cash and cash equivalents reported in statement of cash flows	**60,638,036**	**54,055,112**

In the cash flow statement, the Group records cash on the NBS bank account, cash on accounts of foreign banks, funds in the account of the Central Securities Depository and cash at the cash register.

Parent Bank

In the cash flow statement, the parent bank records cash on the NBS bank account, cash on accounts of foreign banks, funds in the account of the Central Securities Depository and cash at the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the required reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0% to 5%, depending on the maturity of liabilities and their source, while the calculated RSD required reserve makes the sum: calculated required reserves in RSD, 38.00% of the RSD countervalue of the calculated required reserve in EUR on deposits up to 730 days, and 30.00% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days (Official Gazette RS no. 76/2018).

The National Bank of Serbia pays interest to the Bank on the allocated funds in RSD in the amount of 0.10% annually from June 18, 2020.

The Parent bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Parent bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The Parent bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK (continued)

Pursuant to the Decision on Required Reserve (Official Gazette no. 76/2018), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied
- for foreign currency deposits placed for over 730 days the rate of 13% was applied
- for RSD deposits indexed with currency clause the rate of 100% was applied regardless of maturity

The parent bank does not earn interest on the required reserve in foreign currency. During 2021, in accordance with the Decision on the required reserves of the National Bank of Serbia, the Parent Bank allocated a certain part of the required foreign exchange reserves in dinars on its giro account.

Other foreign currency cash in the amount of RSD 1,616,448 thousand (2020: RSD 1,304,141 thousand) relate to an accruals account at the Central Registry of securities for security trading.

22. SECURITIES

22.1. Securities consist of:

	In thousands of RSD Year ended December 31, 2021	2020
Securities measured at fair value through profit and loss (in RSD)	668,087	5,535,104
Securities measured at fair value through profit and loss in foreign currency	-	2,925,568
Total I	**668,087**	**8,460,672**
Securities measured at fair value through other comprehensive income (in RSD)	84,730,864	82,062,022
Securities measured at fair value through other comprehensive income in foreign currency	63,411,166	67,074,175
Impairment allowance	(582)	(453)
Total II	**148,141,448**	**149,135,744**
Securities measured at amortized cost – corporate bonds (in RSD)	846,000	846,000
Discount bill	96,144	-
Impairment allowance	(7,660)	(3,760)
Total III	**934,484**	**842,240**
Total I+II+III	**149,744,019**	**158,438,656**

22. SECURITIES (continued)

22.2. Breakdown of securities measured at fair value through profit and loss is provided below:

	In thousands of RSD Year ended December 31, 2021	2020
Republic of Serbia bonds (in RSD)	-	4,873,616
Investment units OIF KomBank Foreign Exchange Fund	15,094	5,021
Investment units OIF money market funds in dinars	652,993	656,467
Republic of Serbia bonds (in foreign currency)	-	2,925,568
Total	**668,087**	**8,460,672**

Investment units as at December 31, 2021 in the total amount of RSD 668,087 thousand refer to investment units KomBank Monetary Fund, Belgrade and OIF Foreign Currency Fund.

22.3. The structure of the securities that are measured at fair value through other comprehensive income:

	In thousands of RSD Year ended December 31, 2021	2020
In RSD		
Republic of Serbia bonds	84,689,682	80,958,748
T-bills Government of Republic of Serbia	-	997,064
Bonds of local government (city of Sabac and municipality of Stara Pazova)	41,182	106,210
Total in RSD	**84,730,864**	**82,062,022**
In foreign currency		
Republic of Serbia bonds	45,794,353	59,359,112
Bonds of foreign banks (Raiffeisen Bank International)	1,760,642	1,739,077
Bonds of foreign States (Republika Srpska)	15,856,171	5,975,986
Total in foreign currency	**63,411,166**	**67,074,175**
Total	**148,142,030**	**149,136,197**

22. SECURITIES (continued)

Changes in impairment is presented as follows:

Impairment of securities at fair value through OCI	***In thousands of RSD*** **Year ended December 31,**	
	2021	**2020**
Individual impairment allowance		
Balance as at January 1	453	602
Increase (Note 13)	11,835	4,106
Effects of the changes in exchange rates (Note 13)	1	
Reversal (Note 13)	(11,707)	(4,255)
Total individual impairment allowance	**582**	**453**

Impairment of securities measured at amortized cost	***In thousands of RSD*** **Year ended December 31,**	
	2021	**2020**
Individual impairment allowance		
Balance as at January 1	3,760	-
Increase (Note 13)	3,900	3,760
Total individual impairment allowance	**7,660**	**3,760**
Total individual impairment	**8,242**	**4,213**

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

23.1 Loans and receivables due from banks include:

In thousands of RSD

	Year ended December 31, 2021	2020
RSD loans and receivables		
REPO transactions	-	-
Loans for working capital	66,839	1,500
Overnight loans	-	-
Other loans and receivables	7,946	4,085
Paid deposits	8,166,320	16,379
Prepayments	22,514	970
Accruals	(202)	(2)
Impairment allowance	(1,179)	(12)
Total in RSD	**8,262,238**	**22,920**
FX loans and receivables		
REPO transactions	-	1,165,461
Foreign currency accounts held with foreign banks (Note 21)	17,601,652	11,542,558
Overnight loans	-	1,175,802
Other loans and receivables due from foreign banks	1,186,428	1,623,954
Foreign currency deposits placed with other banks	1,063,616	2,384,126
Prepayments	115	456
Other receivables	2,744	4,505
Secured foreign currency warranties	1,033,630	949,980
Impairment allowance	(19,722)	(4,279)
Total in foreign currency	**20,868,463**	**18,842,563**
TOTAL	**29,130,701**	**18,865,483**

As at December 31, 2021, the Parent Bank did not have securities acquired in reverse repo transactions with the National Bank of Serbia. During the year, placements to treasury bills purchased from the National Bank of Serbia, maturing up to 7 days with the annual interest rate of 0.11% to 0.43%.

Short-term time loans and deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 0.11% to 1.30% per annum. Short term time deposits at banks in foreign currency are deposited for a period not exceeding one year, with interest rates ranging from 0.05% per annum for the EUR, from 0.03% to 0.12% for USD and from 0.02% to 0,03% for GBP.

Reverse repo with domestic banks was placed at an interest rate of 0.20%.

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

23.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

	In thousands of RSD Year ended December 31,	
Impairment allowance	**2021**	**2020**
Balance as at January 1	4,291	218,959
Impairment allowance in current year		
Increase (Note 13)	52,463	20,286
Reclassification – transfer on clients	-	(195,504)
Effects of the changes in exchange rates (Note 13)	138	(18,956)
Reversal (Note 13)	(34,801)	(20,495)
Effect of change within Group	(1,190)	-
Other	-	13
Balance as at December 31	**20,901**	**4,291**

24. LOANS AND RECEIVABLES DUE FROM CLIENTS

24.1 Loans and receivables due from customers:

In thousands of RSD
Year ended December 31,

	2021			2020		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers and registered farms						
Transaction account overdrafts	465,479	(9,563)	455,916	451,368	(24,688)	426,680
Working capital loans	51,627,619	(2,924,395)	48,703,224	48,631,549	(4,565,701)	44,065,848
Investment loans	49,808,508	(1,480,258)	48,328,250	50,046,260	(1,070,067)	48,976,193
Loans for payments of imported goods and services	998,631	(34,218)	964,413	2,928,241	(30,092)	2,898,149
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	4,552	(2,924)	1,628	306,114	(278,343)	27,771
Other loans and receivables	17,402,398	(3,167,773)	14,234,625	29,773,968	(4,997,468)	24,776,500
Prepayments	353,319	(23,381)	329,938	510,391	(29,200)	481,191
Accruals	(174,430)	-	(174,430)	(234,863)	-	(234,863)
	120,486,076	**(7,642,512)**	**112,843,564**	**132,413,028**	**(10,995,559)**	**121,417,469**
Retail customers – private individuals						
Transaction account overdrafts	2,540,761	(172,988)	2,367,773	2,769,970	(177,168)	2,592,802
Housing loans	52,578,106	(562,682)	52,015,424	52,482,981	(457,098)	52,025,883
Cash loans	40,128,468	(655,992)	39,472,476	40,383,218	(444,331)	39,938,887
Consumer loans	252,566	(4,804)	247,762	285,881	(2,450)	283,431
Other loans and receivables	1,473,636	(66,905)	1,406,731	2,283,950	(94,481)	2,189,469
Prepayments	988,007	(23,112)	964,895	1,489,439	(17,130)	1,472,309
Accruals	(273,683)	-	(273,683)	(486,623)	-	(486,623)
	97,687,861	**(1,486,483)**	**96,201,378**	**99,208,816**	**(1,192,658)**	**98,016,158**
Balance as of December 31	**218,173,937**	**(9,128,995)**	**209,044,942**	**231,621,844**	**(12,188,217)**	**219,433,627**

24. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

24.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

	In thousands of RSD Year ended December 31, 2021	2020
Individual impairment allowance		
Balance at January 1	**10,748,097**	**11,401,092**
Increase (Note 13)	1,785,740	867,900
Reclassification from Group Impairment	904,610	493,899
Reclassification from Bank's impairment	-	195,504
Effects of the changes in foreign exchange rates (Note 13)	840	(1,302)
Released during the year (Note 13)	(1,005,785)	(1,033,753)
Permanent write-off	(4,907,081)	(1,143,788)
Effect of change within Group	(363,805)	-
Other (Note 13)	84,392	(31,455)
Individual impairment allowance	**7,247,008**	**10,748,097**
Group impairment allowance		
Balance at January 1	**1,440,120**	**1,384,755**
Increase (Note 13)	7,225,302	3,718,287
Reclassification to individual Impairment	(904,610)	(493,899)
Effects of the changes in foreign exchange rates (Note 13)	32,528	(23,653)
Released during the year (Note 13)	(4,687,408)	(2,430,141)
Permanent write-off (Note 13)	(603,511)	(737,140)
Effect of change within Group	(280,397)	-
Other (Note 13)	(340,037)	21,911
Total Group impairment allowance	**1,881,987**	**1,440,120**
Balance as of December 31	**9,128,995**	**12,188,217**

Loans and receivables due from retail customers

During 2021, short-term and long-term loans to retail customers in RSD were approved for a period of 30 days to 120 months in RSD with nominal interest rates ranging from 2.00% to 14.95% per annum.

Short-term loans to retail customers in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.40% to 8.00% annually.

Long-term loans to retail customers in foreign currency are approved for the period from thirteen to ninety-five months with nominal interest rates ranging from 1.50% to 8.00% annually.

24. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Loans and receivables due from legal entities

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.30% to 7.95% annually. In foreign currency, short-term loans were granted for a period up to twelve months with an interest rate of EUR 1.50% to 5.70% annually.

Long-term loans in RSD were approved for a period over twelve months at an interest rate of 1.61% to 5.30% annually. Long-term loans in foreign currency were granted for a period over twelve months at an interest rate of EUR 1.06% to 3.95% annually.

Risks and Uncertainties

The management of the Bank calculates provision for possible loan losses by applying the concept of expected credit losses. Losses due to the impairment of financial assets held at amortised cost are measured as the difference between the carrying value of the financial asset and the present value of the estimated future cash flows discounted with the initial interest rate of the asset. Losses are recognized in the income statement and are measured at the position of impairment and of financial assets. When events after the balance sheet date is affected by a reduction in the amount of loss due to impairment, such a reduction is recognized as revenue of the abolition of impairment, through the income statement.

Loans and other receivables are shown in the amount less the Bank and the individual calculation of impairment. Individual and group provisions are deducted from the book value of loans that are identified as impairment to their value reduced to their recoverable value. In order to protect against the risk of default in dealings with customers, the Bank is undertaking the following measures for the regulation of claims: extension, restructuring, alignment, retrieval of assets for the purpose of securing payment of claims, the conclusion of contracts with interested third party, launch litigation and other measures. If measures regulating investments, or foreclosure and court proceedings have not produced the expected results, or when there is no possibility of the collection in its entirety, initiates the proposal for a permanent write-off of the remaining claims of the banks, or transfer from on-balance to off-balance records.

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

In thousands of RSD
Year ended December 31,

	2021	2020
NLB banka a.d., Podgorica	1,479,000	-
Total	**1,479,000**	**-**

In November 2021, in conducted operation with NLB Group, the Bank acquired 23.97% of equity share of NLB banka a.d. Podgorica in respect of shares with Komercijalna banka Podgorica. (Note 3 (a)).

The Bank engaged an independent appraiser to assess the equity share value as of November 30, 2021, after the legal change - merger of Komercijalna banka a.d. Podgorica to NLB banka a.d. Podgorica.

26. INTANGIBLE ASSETS

26.1 Intangible assets comprise:

In thousands of RSD

	Year ended December 31, 2021	2020
Intangible assets	361,707	561,339
Intangible assets in progress	220,394	17,074
Total	**582,101**	**578,413**

26.2 Movements on the account of intangible assets in 2021 and 2020 are presented below:

In thousands of RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as of January 1, 2020	**3,101,453**	**35,564**	**3,137,017**
Additions	8,755	73,119	81,874
Transfers	91,608	(91,608)	-
Disposals	(4,739)	-	(4,739)
FX differences	(40)	(1)	(41)
Balance as of December 31, 2020	**3,197,037**	**17,074**	**3,214,111**
Balance as of January 1, 2021	**3,197,037**	**17,074**	**3,214,111**
Additions	6,975	312,225	319,200
Transfers	90,125	(104,854)	(14,729)
FX differences	9	-	9
Effect of changes within Group	(395,605)	(4,052)	(399,657)
Balance as of December 31, 2021	**2,898,541**	**220,393**	**3,118,934**
Impairment allowance			
Balance as of January 1, 2020	**2,382,517**	-	**2,382,517**
Amortization (Note 17)	257,950	-	257,950
Disposals	(4,739)	-	(4,739)
FX differences	(30)	-	(30)
Balance as of December 31, 2020	**2,635,698**	**-**	**2,635,698**
Balance as of January 1, 2021	**2,635,698**	**-**	**2,635,698**
Amortization (Note 17)	260,343	-	260,343
Transfers	(7,242)	-	(7,242))
FX differences	10	-	10
Effect of change within Group	(351,976)	-	(351,976)
Balance as of December 31, 2021	**2,536,833**	**-**	**2,536,833**
Net carrying amount			
Balance as of December 31, 2020	**561,339**	**17,074**	**578,413**
Balance as of December 31, 2021	**361,708**	**220,393**	**582,101**

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment comprise:

In thousands of RSD

	Year ended December 31, 2021	2020
Property	4,688,759	5,080,081
Equipment	421,241	506,621
Investments in progress	2,760,607	34,586
Leased assets	885,133	1,121,911
Total	**8,755,740**	**6,743,199**

Investments in progress mostly pertained to purchase of business building in December 2021 in the amount of RSD 2,734,933 thousand.

27.2 Movements on the account of property and equipment in 2021 and 2020 are presented below:

In thousands of RSD

	Property	Equipment	Investment in progress	Leased assets	Total
Cost					
Balance as of January 1, 2020	**7,558,732**	**4,153,470**	**49,281**	**1,834,386**	**13,595,869**
Additions and new leases agreements	-	7,727	124,777	236,987	369,491
Transfer from item in progress	77,666	61,805	(139,471)	-	-
Disposals	(21,042)	(228.779)	-	(201)	(250,022)
Shortages by inventory count	-	(1,116)	-	-	(1,116)
Leases other		(6)		(41,453)	(41,459)
FX differences	(47)	(59)	(1)	(52)	(159)
Balance as of December 31, 2020	**7,615,309**	**3,993,042**	**34,586**	**2,029,667**	**13,672,604**
Balance as of January 1, 2021	**7,615,309**	**3,993,042**	**34,586**	**2,029,667**	**13,672,604**
Additions and new leases agreements	-	788	2,977,047	473,807	3,451,642
Transfer from item in progress	8,177	230,146	(238,323)	-	-
Transfers from items acquired collection of receivables	-	-	4,793	-	4,793
Disposals	(48,027)	(107,688)	(10,352)	(28,281)	(194,348)
Shortages by inventory count	-	(3,522)	-		(3,522)
Leases other	-	14,807	-	(102,014)	(87,207)
Effect of change within Group	(439,682)	(547,458)	(7,144)	(480,457)	(1,474,741)
FX differences	7	11	-	10	28
Balance as of December 31, 2021	**7,135,784**	**3,580,126**	**2,760,607**	**1,892,732**	**15,369,249**
Impairment allowance					
Balance as of January 1, 2020	**2,400,497**	**3,471,809**	**-**	**469,172**	**6,341,478**
Charges in the year (Note 17)	155,793	243,634	-	466,309	865,736
Disposals	(21,042)	(227,950)	-	-	(248,992)
Shortages by inventory count	-	(1,026)	-	-	(1,026)
Leases other	-	(6)	-	(27,717)	(27,723)
FX differences	(20)	(40)	-	(8)	(68)
Balance as of December 31, 2020	**2,535,228**	**3,486,421**	**-**	**907,756**	**6,929,405**
Balance as of January 1, 2021	**2,535,228**	**3,486,421**	**-**	**907,756**	**6,929,405**
Charges in the year (Note 17)	145,063	219,391	-	450,351	814,805
Disposals	(19,949)	(97,448)	-	(24,602)	(141,999)
Shortages by inventory count		(3,364)			(3,364)
Leases other	-	(1,113)	-	(94,330)	(95,443)
Effect of change within Group	(213,321)	(445,017)	-	(231,564)	(889,902)
FX differences	4	15	-	(12)	7
Balance as of December 31, 2021	**2,447,025**	**3,158,885**	**-**	**1,007,599**	**6,613,509**
Net carrying amount					
Balance as of December 31, 2020	**5,080,081**	**506,621**	**34,586**	**1,121,911**	**6,743,199**
Balance as of December 31, 2021	**4,688,759**	**421,241**	**2,760,607**	**885,133**	**8,755,740**

27. PROPERTY, PLANT AND EQUIPMENT (continued)

27.2 Movements on the account of property and equipment (continued)

Members of the Group do not have mortgaged buildings to secure repayment of the loan.

Due to incomplete cadastral books, as of December 31, 2021 the Parent bank does not have evidence of ownership for 7 properties with the net book value of RSD 89,262 thousand. The Parent bank's management takes all the necessary measures to obtain ownership papers. The conclusion of this process depends on the treatment of the competent authority.

28. INVESTMENT PROPERTY

28.1 Movements on the account of investment property in 2021 and 2020 are presented below:

	In thousands of RSD Total
Cost	
Balance as at January 1, 2020	2,841,257
Adjustment of the opening balance of changes in accounting policy (Note 2.5)	968,003
Abolition of accumulated depreciation	(337,505)
Adjusted balance as of January 1, 2020	**3,471,755**
Positive effects of value change (Note 18)	30,335
Negative effects of value change (Note 19)	(463,082)
Sales	(6,784)
FX differences	(69)
Balance as of December 31, 2020 (adjusted)	**3,032,155**
Balance as at January 1, 2021	**3,032,155**
Transfer from assets acquired by collection	150,431
Positive effects of value change (Note 18)	107,537
Negative effects of value change (Note 19)	(40,620)
Transfer from assets held for sale	(66,344)
Effect of change within Group	(572,640)
FX differences	12
Balance as of December 31, 2021	**2,610,531**
Impairment allowance	
Balance as at January 1, 2020	**638,641**
Abolition of accumulated depreciation	**(337,505)**
Adjusted balance on January 1, 2020	**301,136**
Charges in the year	50,902
Depreciation adjustment (Note 2.5)	(38,420)
Sales	(113)
FX differences	(33)
Balance as of December 31, 2020	**313,472**
Balance as at January 1, 2021	**313,472**
Charges in the year	10,209
Transfer from assets held for sale	(18,410)
Appraisal	2,219
Effect of change within the Group	(307,495)
FX differences	5
Balance as of December 31, 2021	**-**
Net carrying amount	
Balance as of December 31, 2020 (adjusted)	**2,718,683**
Balance as of December 31, 2021	**2,610,531**

28. INVESTMENT PROPERTY (continued)

As at December 31, 2021, the Parent Bank has stated investment property with carrying amount RSD 2,610,531 thousand consists of leased facilities.

In 2021, the Parent Bank made a voluntary change in the accounting policy for the subsequent valuation of investment property and thus that the fair value method is used instead of the previously cost method (Note 2.5).

Pursuant to Decision of the Management of the Parent Bank, seven real estates, issued in long-term lease, were reclassified from the items assets acquired by collecting receivables on investment property, with carrying amount of RSD 150,431 thousand.

As of December 31, 2021, the Parent Bank has not yet registered property rights in the competent public registers for 2 investment properties with a current value of 54,193 thousand dinars. In relation to these real estates, all necessary activities have been undertaken, which should result in the final registration of property rights in favor of the Parent Bank.

Information on investment property by members of the Group is presented below:

28.2.1. Operating leasing – Parent Bank

The parent bank leases out its investment property. Leases are classified as operating because not all of the risks and rewards of ownership are transferred.

Investment property is rented to tenants according to the operating lease agreement with monthly rents. The parent bank has no variable annuity depending on the index or rate. Investment property is usually leased for a period of 1 to 10 years. Some contracts are for an indefinite period.

As of December 31, 2021, the net result on the basis of investment real estate is positive and amounts to RSD 64,132 thousand dinars.

In thousands of RSD

Facility	Area in m²	Total cost	Income from rent	Net result
Beograd, Trg Republike 1	3,354	(16,213)	33,016	16,803
Nis, Vrtiste new D – building	1,816	(7,981)	-	(7,981)
Nis, TPC Kalca	85	(238)	6,073	5,835
Beograd, Omladinskih brigade 19	15,218	(12,342)	8,958	(3,384)
Sabac, Majur, Obilazni put bb	1,263	(974)	-	(974)
Lovcenac, Marsala Tita bb	46,971	(841)	7,054	6,213
Negotin, Save Dragovica 20-22	658	(274)	-	(274)
Nis, Bulevar 12. February bb	2,878	(1,289)	6,913	5,624
Beograd, Radnicka 22	7,190	(7,906)	37,740	29,834
Novi Sad, Vardarska 1/B	291	(1,451)	3,557	2,106
Novi Sad, Bulevar Oslobodjenja 88	44	(91)	469	378
Kotor, Old Town, Palata beskuca, business area, number 1	207	(279)	6,431	6,152
Beograd, Luke Vojvodica 77a	80	(603)	796	193
Beograd, Baje Pivljanina 83	279	(748)	2,823	2,075
Subotica, Magn.polja 17	2,492	(1,508)	2,069	561
Čačak, S.polje, Kr.put bb	1,227	(999)	1,510	511
Niš, Čajnička bb	825	(1,406)	1,828	422
Valjevo, Vojvode Mišića 170	231	(20)	-	(20)
Mionica, Andre Savičića 8	106	(13)	71	58
Total		**(55,176)**	**119,308**	**64,132**

28. INVESTMENT PROPERTY (continued)

28.2.1 Operating leasing – Parent Bank (continued)

The following table presents an analysis of the maturity of lease receivables - undiscounted rents that the Bank will receive after the reporting date

	In thousands of RSD Year ended December 31 2021	2020
Due:		
- up to a year	77,868	103,027
- up to 2 years	2,271	77,867
- up to 3 years	2,271	2,271
- up to 4 years	2,271	2,271
- up to 5 years	2,271	2,271
- over 5 years	2,271	2,271
Total	**89,223**	**189,978**

28.2.2. Komercijalna banka ad, Banja Luka

As at December 8, 2021 the net result of investment property is RSD 2,794 thousand:

In thousands of RSD

Property	Area in m²	Total cost	Realized rental income	Net result
Actros motel-pizzeria Nova Topola	5,437	(2,038)	3,674	1,636
Banja Luka, family business building, office building and workshops	6,814	(290)	661	371
Sarajevo, Aurum arena	402	(190)	487	297
Brcko, Bescarinska zona bb – IMPRO	949	(448)	938	490
Total		**(2,966)**	**5,760**	**2,794**

28.2.3 Komercijalna banka ad, Podgorica

As at November 12, 2021 the net result of investment property is RSD 3,487 thousand:

In thousands of RSD

Facility	Area in m²	Total cost	Realized rental income	Net result
Land and distribution center in Budva	7,114	-	1,940	1,940
Three business premises	52.48	(219)	1,766	1,547
Business premise in Herceg Novi				
		(219)	**3,706**	**3,487**

29. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

	In thousands of RSD Year ended December 31 2021	2020
Assets held for sale and discontinued operations	101,614	370,663
Total	**101,614**	**370,663**

Non-current assets held for sale of Parent Bank:

Facility	Area in sqm	In thousands of RSD Carrying Value
Jasika, business premises	75.87	971
Vrbas, M. Tita 49, business premises	145.56	2,093
Kotor, business premises 1 and 2	690.00	98,550
Total		**101,614**

The Bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

30. OTHER ASSETS

Other assets comprise:

	In thousands of RSD	
	Year ended December 31	
	2021	**2020**
In RSD		
Fee receivables per other assets	115,295	95,572
Inventories	98,303	119,667
Foreclosed assets	938,429	3,409,219
Prepaid expenses	162,490	137,479
Equity investments	2,663,302	2,516,975
Other RSD receivables	2,115,051	2,248,805
	6,092,870	**8,527,717**
Impairment allowance on:		
Fee receivables per other assets	(89,209)	(81,165)
Foreclosed assets	(1,940)	(1,722,325)
Equity investments	(446,350)	(446,661)
Other RSD receivables	(720,587)	(817,960)
	(1,258,086)	**(3,068,111)**
	4,834,784	**5,459,606**
In foreign currency		
Fee receivables per other assets	17	8
Other receivables from operations	342,484	634,856
Receivables in settlement	81,828	307,342
Other foreign currency receivables	515,817	783,457
	940,146	**1,725,663**
Impairment allowance on:		
Other receivables from operations	(264,496)	(301,750)
Receivables in settlement	(77,341)	(77,519)
	(341,837)	**(379,269)**
Total	**5,433,093**	**6,806,000**

30. OTHER ASSETS (continued)

Movements of other assets and prepayments impairment allowance is shown in the following table:

	In thousands of RSD Year ended December 31 2021	2020
Balance at January 1	942,741	769,998
Current year impairment		
Increase (Note 13)	251,785	52,264
Changes in FX rates (Note 13)	(45)	(53)
Reversal in the year (Note 13)	(77,737)	(1,578)
Permanent write offs	(1,526)	-
Effects of change within Group	(1,011,434)	-
Other	70,810	122,110
Total Individual impairment allowance	**174,594**	**942,741**
Group impairment allowance		
Balance at January 1	1,979,154	1,913,329
Current year impairment		
Increase (Note 13)	165,937	216,079
Changes in FX rates (Note 13)	1,766	(1,492)
Reversal in the year (Note 13)	(150,474)	(141,576)
Permanent write offs	(14,796)	(6,812)
Effects of change within Group	(2,005)	-
Other	(1,062,385)	(374)
Total Group impairment allowance	**917,197**	**1,979,154**
Balance as at December 31 (excluding small inventory) – subject to credit risk	**1,091,791**	**2,921,895**
Impairment allowance of inventory (not exposed to credit risk)	61,782	78,824
Balance as at December 31 (with small inventory) (without item impairment of equity shares	**1,153,573**	**3,000,719**
Impairment of equity shares	446,350	446,661
Total impairment of other assets	**1,599,923**	**3,447,380**

30. OTHER ASSETS (continued)

a) Equity shares

Other assets also comprise equity shares and are shown in the following table:

	In thousands of RSD Year ended December 31 2021	2020
Equity shares in banks and other financial organizations	80,270	80,270
Equity shares in companies and other legal entities	431,327	458,725
Equity shares in non-resident entities abroad	2,151,705	1,977,627
	2,663,302	**2,516,622**
Impairment allowance of:		
Equity shares in banks and other financial organizations in bankruptcy	(80,270)	(80,270)
Equity shares in companies and other legal entities	(366,080)	(366,391)
	(446,350)	**(446,661)**

Equity shares in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity shares in companies mostly relate to: 14. Octobar a.d. Krusevac in the amount of RSD 324,874 thousand, Dunav osiguranje a.d.o. Belgrade in the amount of RSD 60,276 thousand, RTV Politika d.o.o. Belgrade in the amount of RSD 37,634 thousand, Belgrade Stock Exchange a.d. in the amount of RSD 2,246 thousand and Politika a.d. Belgrade RSD 2,244 thousand.

Equity shares in non-resident entities abroad relate to VISA INC Company in the amount of RSD 1,685,355 thousand and MASTER Card International in the amount of RSD 450,354 thousand.

Impairment allowance of equity shares totalling RSD 446,350 thousand relates to the impairment of cost of those equity shares that have no market value, out of which the major portion refers to: 14. October a.d., Krusevac in the amount of RSD 324,874 thousand, Euroaxis bank Moscow worth RSD 78,387 thousand, RTV Politika Belgrade in RSD 37,633 thousand and PPD Dobricevo d.o.o. Cuprija amounting to RSD 2,563 thousand.

b) Other receivables and receivables from operations

Other receivables stated in RSD mostly relate to operating receivables in the amount of RSD 223,059 thousand (impairment in the amount of RSD 76,968 thousand), receivables from material values received by collection of receivables in the amount of RSD 938,429 thousand (impairment in the amount of RSD 1,940 thousand), receivables from advances given for working capital in the amount of RSD 53,484 thousand (impairment in the amount of RSD 8,360 thousand), receivables from rent in RSD 371,984 thousand (impairment in the amount of RSD 233,682 thousand), receivables for default interest from other assets in the amount of RSD 200,766 thousand (impairment in the amount of RSD 126,775 thousand) and operating receivables according to the court judgment in the amount of RSD 209,085 thousand (impairment in entire 100%).

30. OTHER ASSETS (continued)

v) Foreclosed assets

Foreclosed assets totalling to RSD 938,429 thousand gross, less recorded impairment allowance of RSD 1,940 thousand, with the net carrying value of RSD 936,489 thousand relate to:

I Foreclosed properties classified in accordance with the classification decision that applied before December 30, 2013.

In thousands of RSD

Item	Area in sqm	Value	Date of acquisition
Novi Pazar, Kej skopskih žrtava 44, store	82.95	2,760	27.09.2006
Gnjilica, field VII class	2,638	75	15.04.2008
Čačak, Hotel „ Prezident“, Bulevar oslobođenja bb	2,278.92	68,762	21.01.2009
Buče, forest, IV class	8,292	299	12.10.2010
Budva, Crna Gora, forest, IV class	974	8,080	27.05.2011
Prijevor, forest, IV class	1,995	11,087	27.05.2011
Beograd, Mihajla Avramovića 14a, residential	925.35	166,849	21.11.2011
Kruševac, Koševi, production business facility I.C.P.	12,836	38,440	08.06.2012
Mladenovac, Sopot-Nemenikuće, field III class	16,633	274	25.06.2012
Obrenovac, Mislođin, , field III class	10,017	1,078	11.07.2012
Novi Pazar, Ejupa Kurtagića 13, house	139.90	4,755	24.07.2012
Majur, Tabanovačka, field	14,452	1,671	10.08.2012
Mali Požarevac, Veliko polje, fiels III and IV class	21,915	328	27.09.2012
Ćuprija, Alekse Šantića 2/24, apartment	72.40	924	15.01.2013
Niš, Ivana Milutinovića 30, business premises	438.39	4,919	23.04.2013
Niš, Triglavska 3/1, apartment	79.80	3,609	04.06.2013
Mladenovac, field-meadow III class	1,142	505	18.07.2013
Prijepolje, Karoševina, sawmill	450	1,126	08.11.2013
Total I		**315,541**	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

II Foreclosed properties classified in accordance with the classification decision that is applied after December 30, 2013

In thousands of RSD

Description	Area in sqm	Value	Date of acquisition
Vukovac,, Milatovac, agricultural land	132,450	521	16.05.2014.
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	39,437	08.05.2014.
Mokra Gora, land, forests, fields, houses	58,400	3,246	31.01.2014.
Kopaonik, House with land	337	5,865	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 6/3	29	3,944	31.01.2014.
Novi Sad, Bulevar oslobodjenja 30 and commercial property 7/3	44	5,984	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 8/3	35	4,760	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 9/3	34	4,624	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 10/3	39	5,304	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, commercial/23	253	31,340	31.01.2014.
Novi Sad, Tihomira Ostojica 4, office space 7	134	5,663	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 8	81	4,075	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 9	79	3,974	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 10	408	21,387	31.01.2014.
Zrenjanin, Novosadski put 4, building, pump and land	9,144	38,110	14.08.2014.
Budva, Rezevici, Montenegro, rocks, forest	1,363.20	17,922	22.07.2014.
Budva, Rezevici, Montenegro, forest V class	5,638.54	74,126	22.07.2014.
NIS, Ivana Gorana Kovacica 31, residential building	434.58	9,572	17.04.2013.
Mladenovac, Americ, field IV class	7,768	260	03.10.2014.
Valjevo, Radjevo selo, warehouse	394	2,364	11.06.2014.
Bela Crkva, Kajtasovo, forest	4,187	85	03.10.2014.
Mladenovac, fields, orchards	25,136	551	03.10.2014.
NIS, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	14,178	14.03.2013.
NIS, Sumadijska 1, Office space	504.60	1,939	04.12.2014.
Valjevo, Worker 6, place	69	2,981	28.05.2014.
Prokuplje, field III class	12,347	530	28.08.2015.
Prokuplje, Maloplanska 7, building with land	490	300	11.06.2012.
Sokobanja, agricultural land, Orchard, field IV class	417,908	7,394	31.07.2012.
Sokobanja, production hall with land	5,042	25,347	31.07.2012.
Sokobanja, space with land	2,005	728	31.07.2012.
Sokobanja, House with land	4,194	8,117	31.07.2012.
Lebane, Branka Radičevica 17, residential and commercial building	768.42	6,246	27.08.2015.
Sid, Jamene, field, krcevinai cerje IV and V class	29,515	1,354	11.03.2016.
Loznica, Lipnica, Karađorđeva, residential and commercial building with land	146	2,149	15.10.2015.
Vrhpolje, lodging hospitality	1,334	2,457	16.05.2013.
Zrenjanin, Bagljas, pasture II class	230	50	22.12.2015.
Svilajnac, Kodublje, Office building, halls and land	10,462	28,802	26.02.2016.
Aleksandrovo, Merosina, building with land	8,527	14,056	23.12.2015.
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	232	31.03.2016.
Valjevo, Bobove, field VI and VII class	20,599	360	19.05.2016.
Kotor, Montenegro, Office space, building No. 1	106	24,117	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	52,330	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	34,887	22.12.2016.
Nis, Trg Ucitelja Tase br. 10/1, office space	79.40	6,114	13.03.2019.
Curug, Nikole Pasica bb, silos with additional facilities	910	61,577	07.10.2019.
Zabari, fileds III class	12,732	306	08.03.2017.
Novi Sad, Petra Drapsiina 29, apartment	154	14,230	14.10.2020.
Lazarevo, Complex of agricultural buildings	1,585	5,069	
Total II		**599,164**	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

III Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of on-balance and off-balance sheet items

In thousands of RSD

Description	Value	Date of acquisition
Krusevac, moveable assets (\machinery, furniture, equipment)	5,544	08.06.2012
Nis and Soko Banja Moveable assets (lines for processing coffee, transport devices and devices for maintaining hygiene)	4,916	31.07.2012
Paracin, lines for production for coffee	1,569	31.12.2012
Vranic, lines for production	1,810	09.07.2013
Total III	**13,839**	

IV Equipment acquired in periods after December 30, 2013 – which classify as balance and off-balances items in accordance with the relevant NBS decision

In thousands of RSD

Description	Value	Date of acquisition
Moveable property, agricultural equipment and tools	48	03.06.2015
Equipment supplies raw materials	1,242	18.07.2014
Movables, installation material	388	13.05.2014
Other	6,267	07.10.2019
Total IV	**7,945**	

V Securities acquired through the collection of receivables

In thousands of RSD

Description	Value	Date of acquisition
Securities acquired through the collection of receivables	1,940	12.09.2019
Impairment of securities	(1,940)	
Total V	**-**	
Total (current value) I + II+ III+ IV+V	**936,489**	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

The effect of the impairment of assets acquired through collecting receivables in 2021 is shown in the table:

In thousands of RSD

	Properties	Equipment	Total
Positive effect of change in value (Note 18)	112,014	-	112,014
Negative effect of change in value (Note 19)	(30,355)	(2,279)	(32,634)
Total	**81,659**	**(2,279)**	**79,380**

The positive effect of the value assessment of assets acquired through the collection of receivables is recognized as income for the period up to the amount of previously recognized impairment loss, while the negative effect of is recognized as expense for the period, as follows:

- change in value of property in the net amount of RSD 81,659 thousand under estimated lower market value of property and land (less haircut by 14% in accordance with the Group Methodology) compared to their initial value (acquisition value);
- impairment of equipment in the amount of RSD 2,279 thousand based on the estimated lower market value.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

30. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.1 Appraisal value of foreclosed properties

Property	Area in sqm	Book value before the appraisal	Appraisal value: In thousand of EUR	Appraisal value: Net current value in thousand of RSD	The difference in value in thousands of RSD
Beograd, Mihajla Avramovića 14a, residential building	925.35	147,436	1,419	166,849	19,413
Budva, Reževići, Crna Gora, forest V class	5,638.54	74,111	630	74,126	15
Čačak, Hotel „ Prezident“, Bulevar oslobođenja bb	2.278.92	68,748	585	68,762	14
Čurug, Nikole Pašića bb, silos with auxiliary facilities	910	55,280	524	61,577	6,297
Kotor, Crna Gora, office premises, building no. 1	345	60,135	445	52,330	(7,805)
Bor, Nikole Pašića 21, office building, warehouse	3,823	40,165	335	39,437	(728)
Kruševac, Koševi, production business facility I.C.P.	12.836	40,194	327	38,440	(1,754)
Zrenjanin, Novosadski put 4, building, pump and land	9,144	30,165	326	38,310	8,145
Kotor, Crna Gora, office premises, building no. 1	345	53,481	297	34,887	(18,594)
Novi Sad, Bulevar oslobođenja 88, office premises 23	253	17,473	267	31,340	13,867
Svilajnac, Kodublje, office building, hall and land	10,462	26,633	245	28,802	2,169
Sokobanja, production hall with land	5,042	20,491	216	25,347	4,856
Kotor, Crna Gora, office premises, building no. 1	106	18,513	205	24,117	5,604
Novi Sad, Polgar Andraša 40/a, business premises 10	408	22,177	182	21,387	(790)
Budva, Reževići, Crna Gora, rocky, forest	1,363.20	18,149	152	17,922	(227)
Niš, Sjenička 1, office building, warehouses, workshop	1,452.73	11,461	121	14,178	2,717
Novi Sad, Petra Drapšina 29, apartment	154	13,447	121	14,230	783
Aleksandrovo, Merošina, building with land	8,527	12,690	120	14,056	1,366
Prijevor, , forest IV class	1.995	4,179	94	11,087	6,908
Niš, Ivana Gorana Kovačića 31, residential building	434.58	3,914	81	9,572	5,658
Budva, Crna Gora, forest IV class	974	3,612	69	8,080	4,468
Sokobanja, building with land	4,194	3,185	69	8,117	4,932
Sokobanja, agricultural land, orchard, class IV field	417,908	4,932	63	7,394	2,462
Lebane, Branka Radičevića 17, residential and commercial building	768.42	4,944	53	6,246	1,302
Niš, Trg Učitelja Tase br. 10/1, shops	79.40	5,489	52	6,114	625
Novi Sad, Bulevar oslobođenja 30a business premises 7/3	44	4,045	51	5,984	1,939
Kopaonik, house with land	337	3,533	50	5,865	2,332
Novi Sad, Tihomira Ostojića 4, business premises 7	134	4,964	48	5,663	699
Novi Sad, Bulevar oslobođenja 30a, business premises 10/3	39	3,585	45	5,304	1,719
Lazarevo, Complex of agricultural facilities	1585	5,069	43	5,069	-
Niš, Ivana Milutinovića 30. business premises	438.39	4,420	42	4,919	499
Novi Pazar, Ejupa Kurtagića 13. house	139.90	3,184	40	4,755	1,571
Novi Sad, Bulevar oslobođenja 30a, business premises 8/3	35	3,218	40	4,760	1,542
Novi Sad, Bulevar oslobođenja 30a, business premises 9/3	34	3,126	39	4,624	1,498
Novi Sad, Polgar Andraša 40/a, business premises 8	81	4,281	35	4,075	(206)
Novi Sad, Bulevar oslobođenja 30a, business premises 6/3	29	2,666	34	3,944	1,278
Novi Sad, Polgar Andraša 40/a, business premises 9	79	4,176	34	3,974	(202)
Niš, Triglavska 3/1, apartments	79.80	2,842	31	3,609	767
Mokra Gora, land, forests, fields, houses	58,4	3,288	28	3,246	(42)
Valjevo, Radnička 6, apartment	69	2,410	25	2,981	571
Novi Pazar, Kej skopskih žrtava 44. shop	82.95	1,910	23	2,760	850
Vrhpolje, catering unit	1,334	2,049	21	2,457	408
Valjevo, Rađevo village, warehouse	394	380	20	2,364	1,984
Other (23 units)	-	12,896	133	15,645	2,749
TOTAL		**833,046**		**914,705**	**81,659**

30. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.2 Appraisal value of foreclosed equipment

Equipment	Carrying amount before appraisal in thousand of RSD	Net book value in thousand of RSD	Difference in thousand of RSD
Movable assets	11,044	8,923	(2,121)
Equipment, supplies, secondary raw material	6,752	6,594	(158)
Other	6,267	6,267	-
Total	**24,063**	**21,784**	**(2,279)**

As of December 31, 2021, the Parent Bank did not register property rights in the land public books for two units with a current value of RSD 1,176 thousand acquired through the collection of receivables. In relation, all necessary activities have been undertaken which should result in the final registration in favor of the Parent Bank.

For three movables items with a total value of RSD 96 thousand, the Parent Bank does not hold any book ownership (items are recorded in off-balance sheet records). The Parent Bank's management takes all necessary measures to sell the acquired assets.

31. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

Deposits and other liabilities due to banks and other financial institutions comprise:

	In thousands of RSD Year ended December 31 2021	2020
Demand deposits	1,764,847	4,164,149
Term deposits	259,542	3,750,865
Overnight deposits	109,000	150,000
Other	1,580	31,176
Balance as at December 31	**2,134,969**	**8,096,190**

During 2021 deposits were 0.10% for RSD. Interest rates on deposits taken from subsidiary foreign banks amounted 0.25% for USD deposits.

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS

Deposits and other liabilities due to customers comprise:

	In thousands of RSD Year ended December 31 2021	2020
Corporate customers and registered farms		
Demand deposits	87,826,768	86,846,426
Revocable deposits	-	180,955
Overnight and other deposits	9,347,332	19,966,291
Borrowings	615,954	4,471,316
Special-purpose deposits	2,769,430	2,478,918
Deposits for loans approved	368,651	682,563
Interest payable, accrued interest liabilities and other financial liabilities	487,686	715,894
Retail customers – private individuals		
Demand deposits	56,766,007	55,006,792
Revocable deposits	-	37,855
Savings deposits	233,332,560	224,973,561
Special-purpose deposits	7,911,007	6,750,908
Deposits for loans approved	2,526,247	2,573,827
Interest payable, accrued interest liabilities and other financial liabilities	1,136,322	1,095,054
Other deposits	198,454	411,707
Balance as of December 31	**403,286,418**	**406,192,067**

Corporate Customer's Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and legal entities. In accordance with the Decision on Interest Rates for 2021, up to April 30,2021, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand. From May 1, 2021, transaction deposits of legal entities are non-interest-bearing. Depending on the level of the average monthly balance, the interest rate on transaction deposits of entrepreneurs is 0.10% per annum if average monthly balance is higher than RSD 50 thousand. From October 1, 2021 entrepreneurial transaction deposits are non-interest-bearing.

Foreign currency demand deposits of non-resident customers are non-interest bearing.

For the period January 1 to December 31, 2021, short-term corporate deposits are interest bearing with rate ranging from: reference interest rates annually minus 0.85% percentage points for a period of 30 to 59 days, to interest rates equal to the reference interest rate annually minus 0.25% percentage points for a period of 180 to 364 days, with a limit of at least RSD 300 thousand, while long-term deposits are deposited at an interest rate determined by the reference interest rate of the National Bank of Serbia on an annual basis.

For the period January 1 to December 31, 2021, Short-term deposits of entrepreneurs in RSD are deposited with interest rate ranging from: 0.15% to 0.45% on deposits from 30 to 59 days to interest rate of 0.75% to 1.20% for a period of 184 to 364 days, with a limit of at least 300 thousand dinars , while long-term deposits are deposited at interest rate of 1.00% to 1.50%.

For the period January 1 to December 31, 2021, Short-term corporate and entrepreneurs deposits in foreign currency are deposited with an interest rate ranging from: 0.00% to 0.25% on deposits from 30 to 59 days to an interest rate of 0.40% for a period of 180 to 364 days for EUR and USD 0.50 % on deposits from 30 to 59 days to 1.00% for a period of 180 to 364 days, with a limit of at least 3 thousand EUR / USD.

For the period January 1 to December 31, 2021, Long-term corporate and entrepreneurs deposits in foreign currency are deposited with interest rates ranging from: 0.10% to 0.70% on deposits of 365 and more days for EUR, or for USD from 0.15% to 1.40% on deposits of 365 and more days , with a limit of at least 3 thousand EUR / USD

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

Retail deposits

Domestic and foreign currency savings deposits of the private individuals during 2021 were non-interest bearing.

Short-term retail deposits in dinars were deposited at interest rates ranging from 1.00% to 2.50% annually, and in foreign currency from 0.05% to 0.35% for EUR, and for other currencies from 0.10% to 1.00% annually.

Long-term retail deposits in dinars are deposited at interest rates ranging from 2.00% to 3.00% annually, and in foreign currency from 0.15% to 0.80% for EUR, and for other currencies from 0.15% to 1.50% annually.

Within the liabilities arising from loans, the total liabilities on foreign credit lines to foreign legal entities that are defined as customers for the balance sheet purposes are recognized.

The structure of long-term and short-term loans that are stated in the position of liabilities to customers is as follows:

	In thousands of RSD	
	Year ended December 31	
	2021	**2020**
Long-term loans		
Government of the Republic of Italy	2,744	5,487
European Investment Bank (EIB)	613,210	970,366
European Agency for Reconstruction and Development (EAR)	-	1,372
Total	**615,954**	**977,225**

The maturity of the loans presented is between 2022 and 2030.

For credit lines (tripartite), the Bank has no contractual obligations with creditors related to financial indicators (monitoring/reporting).

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

32.1. Structure and movement of deposits and other financial liabilities to banks, other financial organizations, central bank and customers are shown below

In thousands of RSD

	Year ended December 31 2021	2020
Balance, January 1		
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 31)	8,096,190	8,318,606
Deposits and other financial liabilities to other customers (Note 32)	406,192,067	370,987,710
Balance, January 1	**414,288,257**	**379,306,316**
Effect of change within Group	**(36,599,769)**	**-**
Net inflows / outflows - deposits	27,239,282	33,844,825
Net inflows / outflows - loans	(1,259,627)	1,779,939
Net inflows / outflows - interest	(911,886)	(1,265,765)
Net inflows / outflows - fees	(2,753)	(4,165)
Foreign exchange differences	1,727,979	(782,537)
Accrued interest and other non-cash transactions	939,851	1,409,644
Balance at December 31	**405,421,334**	**414,288,257**

In thousands of RSD

	Year ended December 31 2021	2020
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 31)	2,134,916	8,096,190
Deposits and other financial liabilities to other customers (Note 32)	403,286,418	406,192,067
Total banks and customers	**405,421,334**	**414,288,257**

33. PROVISIONS

Provisions relate to:

In thousands of RSD

	Year ended December 31 2021	2020
Provisions for off-balance sheet items (Note 13)	208,819	249,508
Provisions for litigations (Note 38.4)	2,619,536	1,797,624
Provisions for employee benefits in accordance with IAS 19	615,548	649,214
Other provisions (Note 19)	807,826	-
Balance at December 31	**4,251,729**	**2,696,346**

33. PROVISIONS (continued)

Movements on the accounts of provisions are provided below:

In thousands of RSD

	December 31, 2021					December 31, 2020			
	Off-balance sheet provisions (Note 13)	**Provisions for litigation (Note 38.4)**	**Provisions for employee benefits (IAS 19)**	**Other provisions (Note 19)**	**Total**	**Off-balance sheet provisions (Note 13)**	**Provisions for litigation (Note 38.4)**	**Provisions for employee benefits (IAS 19)**	**Total**
Balance at January 1	**249,508**	**1,797,624**	**649,214**	**-**	**2,696,346**	**210,395**	**1,715,964**	**557,051**	**2,483,410**
Payments	431,459	1,515,936	20,072	1,610,928	3,578,395	250,361	1,012,762	104,241	1,367,364
Provisions against actuarial gains within equity	-	-	137,494		137,494	-	-	(4,338)	(4,338)
Utilised	-	(522,700)	(45,105)	(803,102)	(1,370,907)	-	(142,145)	(3,326)	(145,471)
Abolition of provision	(431,585)	(74,459)	(112,669)	-	(618,713)	(211,244)	(777,198)	(10)	(988,452)
Interest costs	-	-	9,601		9,601	-	-	-	-
FX differences	(2)	(6)	(1)		(9)	(4)	(9)	(4)	(17)
Effect of changes within Group	(40,560)	(96,859)	(43,058)	-	(180,477)	-	-	-	-
Other	(1)	-	-	-	(1)	-	(11,750)	(4,400)	(16,150)
Balance at December 31	**208,819**	**2,619,536**	**615,548**	**807,826**	**4,251,729**	**249,508**	**1,797,624**	**649,214**	**2,696,346**

a) Provisions for litigations of Parent bank

A provision was done on the basis of estimates of future outflows in the amount of damage receivables including interest and costs. Total amount of provisions for 15,558 disputes as at December 31, 2021 amount to RSD 12,603,783 thousand.

Compared to December 31, 2020 there was a change in the total level of provisions in the net amount of RSD 896,482 thousand. Of this, the change related to the net provisioning provision for legal liabilities amounts to RSD 1,418,371 thousand recognized in the income statement position, while the decrease in the provision in the amount of RSD 521,889 thousand relates to the use of provisions for payments and cancellation under the adopted court judgments.

Majority of disputes mainly relate to loan approval fee, receivables for damages and determination.

At the session of the Civil Department of the Supreme Court of Cassation held on September 16, 2021, the Legal Position on the Admissibility of Contracting Loan Costs (adopted on May 22, 2018) was amended by stipulating that the Bank is not obliged to prove the structure and amount of costs covered by the total loan costs specified in the offer accepted by the borrower by concluding the loan agreement.

At the same session on September 16, 2021, the position on the admissibility of contracting insurance premiums, as an obligation of the borrower with NMIC, was taken by stating that the provision of the loan agreement which legally obliges the borrower to pay the insurance premium to the bank with NMIC is legally valid, provided that this obligation is clearly stated. to the borrower in the pre-contractual phase by stating this type of loan costs and its percentage and nominal amount in the offer. The bank is not obliged to acquaint the borrower with the structure and method of calculating the loan insurance premium.

In the financial statements, the estimate of provisions for litigation on the basis of lawsuits filed against the Bank until September 20, 2021 relating to the fees charged by the Bank to borrowers was made without taking into account the position of the Supreme Court of Cassation of September 16, 2021 due to the Bank's determination to wait for the unification of case law based on the position of the Supreme Court of Cassation.

33. PROVISIONS (continued)

b) Provisions for retirement benefits

Provisions for retirement benefits are formed on the basis of an independent actuary's report at the balance sheet date, and are stated in the amount of the present value of expected future payments.

Main actuarial assumptions used in the calculation of provisions for retirement benefits:

	In thousands of RSD Year ended December 31	
	2021	2020
Parent Bank		
Discount rate	4.20%	4.00%
Salary growth rate within the Bank	3.80%	3.00%
Salary growth rate at the national level	3.80%	6.00%
Employee turnover	2.90%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

Actuarial assumption	Change of assumptions in percentage points	*In thousands of RSD* Year ended December 31, 2021 Change in net book value of provisions for employee benefits
Discount rate	+0.5	(22,891)
	-0.5	24,899
Salary growth	+0.5	21,066
	-0.5	(19,508)
Employee turnover	+0.5	(24,088)
	-0.5	12,569

Komercijalna Banka a.d., Podgorica

	In thousands of RSD Year ended December 31	
	2021	2020
Discount rate	3.00%	3.00%
Salary growth rate within the Bank	-	-
Salary growth rate at the national level	2.00%	2.00%
Employee turnover	9.00%	8.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Montenegro was used to determine the discount rate.

Komercijalna Banka a.d., Banja Luka

	In thousands of RSD Year ended December 31	
	2021	2020
Discount rate	-	3.00%
Salary growth rate within the Bank	-	2.00%
Salary growth rate at the national level	-	-
Employee turnover	-	5.00%

Komercijalna banka a.d. Banja Luka did not calculate the provision for employee benefits until the date it was part of the Group.

33. PROVISIONS (continued)

b) Provisions for retirement benefits (continued)

KomBank INVEST a.d., Beograd

	In thousands of RSD Year ended December 31	
	2021	2020
Discount rate	4.20%	4.00%
Salary growth rate within the Bank	3.70%	6.00%
Salary growth rate at the national level	3.70%	-
Employee turnover	2.10%	5.00%

34. OTHER LIABILITIES

Other liabilities include:

	In thousands of RSD Year ended December 31	
	2021	2020
Payables	240,740	166,554
Liabilities to employees (salaries, taxes, contributions and other liabilities to employees)	67,377	26,212
Advances received	27,356	192,516
Leasing liabilities	910,609	1,151,562
Deferred income from interest and fees and other income	238,274	333,215
Accrued liabilities and other accruals	1,386,557	1,340,697
Liabilities on transitional accounts	770,418	1,866,692
Liabilities from profit	177,656	183,667
Liabilities for taxes and contributions	13,638	10,882
Other liabilities	310,827	297,881
Balance at December 31	**4,143,452**	**5,569,878**

Liabilities on transitional accounts in the amount of RSD 770,418 thousand mainly relate to liabilities in the account for liquidated foreign currency accounts of domestic legal entities in the amount of RSD 114,870 thousand, liabilities for unpaid dividends to legal entities in the amount of RSD 93,414 thousand, liabilities based on closed customer accounts in RSD in the amount of RSD 142,076 thousand, liabilities in settlement based on liquidated foreign currency accounts of foreign legal entities in the amount of RSD 59,291 thousand and liabilities in settlement on other bases in RSD in the amount of RSD 105,494 thousand.

34.1 **Liabilities from profit** in the total amount of RSD 177,656 thousand consist of:

- dividend payable on preference shares in the amount of RSD 4,251 thousand,
- liabilities from profit to employees in the amount of RSD 173,405 thousand

The remaining amount of liabilities based on dividends in the amount of RSD 4,251 thousand refers to liabilities from the period before 2014 and liabilities to shareholders who did not submit instructions for the payment of dividends.

34. OTHER LIABILITIES (continued)

34.2. Liabilities based on leasing – Parent Bank

In thousands of RSD

	2021		2020	
	Net book value	Undiscounted cash flows	Net book value	Undiscounted cash flows
Due:				
- up to a year	340,163	353,375	323,006	334,983
- up to 2 years	230,204	238,828	214,032	221,561
- up to 3 years	158,435	163,786	142,359	146,686
- up to 4 years	115,005	117,987	72,980	75,449
- up to 5 years	44,745	46,130	40,894	42,284
- over 5 years	22,058	25,931	28,050	31,551
Total	**910,610**	**946,037**	**821,321**	**852,514**

Breakdown of total leasing payments or outflows in 2021 and 2020 is shown in the following table:

In thousands of RSD
Year ended December 31

	2021	2020
Fixed term payments	373,915	381,660
Variable payments	8,580	7,455
Total	**382,495**	**389,115**

Variable payments included in lease liabilities are index-dependent payments. Of the total outflows in the amount of RSD 382,495 thousand, RSD 367,957 thousand relate to principal shown within cash flows from financing activities item, while interest payments amount to RSD 14,538 thousand shown within cash flows from operating activities item in cash flow statement.

Breakdown of leases expenditures and revenues based in 2021 and 2020 is shown in the following table:

In thousands of RSD
Year ended December 31

	2021	2020
Depreciation costs of assets with the right of use	(372,085)	(377,754)
Interest costs from leases liabilities	(14,538)	(15,774)
Rental costs	(46,220)	(31,787)
Tax expense IFRS 16	(67,238)	(65,222)
Net effects of expenditure / (income) from variable payments and expenditure of assets with the right to use	475	629
FX differences	(79)	95
Total	**(499,685)**	**(489,813)**

The Bank leases business premises, vehicles and other equipment used in its business. Lease agreements for business premises are usually concluded for a period of 5 years, while some leases are for a longer period of time, or for an indefinite period.

Indefinite contracts are included in the recognition of lease liabilities in accordance with planned estimates. A lease period of 5 years is usually provided, except for business premises in strategic locations for which management estimates a different (longer) lease term. Lease of vehicles and other equipment is usually made for a period of 1 to 5 years. Some lease agreements include the possibility of automatic renewal, while the vast majority include the right of unilateral termination for the Bank. These options are agreed by the management in accordance with the business needs. Leases for renewable periods are included in the measurement of the lease liability if it is highly probable that the lessee will exercise this option.

34. OTHER LIABILITIES (continued)

34.2. Liabilities based on leasing (continued)

The terms of each lease are agreed on an individual basis and contain different terms. Apart from the obligations assumed in connection with the leased property, the leases do not include other obligations, except for participation in the costs of security, maintenance, marketing, etc., depending on the location or the lessor. The leased property cannot be used as collateral for the loans taken.

The Bank also leases certain equipment with a lease period of 12 months or less and low value equipment. For these leases, the Bank applies an exemption from the obligation to recognize short-term leases and low-value leases. Lease for short-term and small leases is recognized as an expense on a straight-line basis over the lease period.

To calculate the net present value of future leases, the Bank uses its incremental borrowing rate as the discount rate prevailing on the lease date.

The Bank has not incurred any costs related to variable leases and gains or losses from reverse lease transactions.

35. EQUITY

35.1 Equity is comprised of:

In thousands of RSD

	Year ended December 31 2021	2020
Share capital	17,191,466	17,191,526
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	22,148,071	25,432,818
Revaluation reserves	3,889,796	8,544,078
Profit	9,579,290	5,385,680
Loss	-	(1,261,380)
Balance as at December 31	**75,651,707**	**78,135,806**

Equity breakdown *In thousand of RSD*

	As of December 31, 2021			As of December 31, 2020 - adjusted		
	Equity shareholders	Non-controlling interests	Total	Equity shareholders	Non-controlling interests	Total
Share capital	17,191,466	-	17,191,466	17,191,466	60	17,191,526
Share issue premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	40,034,550	**-**	40,034,550	40,034,550	**60**	40,034,610
Profit	**9,579,290**	**-**	**9,579,290**	**5,385,674**	**6**	**5,385,680**
Loss	-	**-**	-	(1,261,380)	**-**	(1,261,380)
Reserves from profit and other reserves	22,148,071	-	22,148,071	25,432,814	4	25,432,818
Revaluation reserves (credit balance)	3,890,118	-	3,890,118	6,924,907	-	6,924,907
Revaluation reserves (debt balance)	(322)	-	(322)	-	-	-
Translational reserves (Note 35.3)	-	-	-	1,619,171	-	1,619,171
Reserves	**26,037,867**	**-**	**26,037,867**	**33,976,892**	**4**	**33,976,896**
Equity	**75,651,707**	**-**	**75,651,707**	**78,135,736**	**70**	**78,135,806**

The Parent Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank (owners of the ordinary shares) as well as to shares in profit distribution (owners of the preference and ordinary shares). As of December 31, 2021 the Parent Bank's share capital totalled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

Breakdown of the Parent Bank's shares at December 31, 2021 was as follows:

	Number of shares	
Shares	**As of December 31, 2021**	**As of December 31, 2020**
Ordinary shares	16,817,956	16,817,956
Preference shares	373,510	373,510
As of December 31, 2021	**17,191,466**	**17,191,466**

35. EQUITY (continued)

35.1 Equity is comprised of: (continued)

Breakdown of the Parent Bank's shareholders own ordinary shares at December 31, 2021 was as follows:

Shareholder	Number of shares	% of participation
NLB d.d. Ljubljana	14,847,047	88.28
OTP BANKA SRBIJA (custody account)	460,560	2.74
BDD M&V INVESTMENTS AD BEOGRAD	382,590	2.27
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
Kompanija Dunav osiguranje a.d., Beograd	290,214	1.73
OTP BANKA SRBIJA (custody account)	85,664	0.51
TEZORO BROKER AD	58,952	0.35
BDD M&V INVESTMENTS AD BEOGRAD (cumulative account)	51,117	0.30
CRIMINAL AND POLICE ACADEMY	34,320	0.20
TANDEM FINANCILA a.d. Novi Sad	22,235	0.13
DUNAV RE AD	17,220	0.10
MERA INVEST DOO BEOGRAD	16,900	0.10
TEZORO BROKER AD	12,160	0.07
ERSTE BANK CUSTODY	11,379	0.07
FIZIČKO LICE	11,170	0.07
KRUNA KOMERC D.O.O.	10,000	0.06
ELEKTRODISTRIBUCIJA SRBIJE DOO	8,990	0.05
Other (729 shareholders)	175,838	1.06
	16,817,956	**100.00**

The structure of the Bank's shareholders with preferred shares at December 31, 2021 was as follows:

Shareholder	Number of shares	% of participation
Physical body	73,140	19.58
NLB d.d. Ljubljana	57,250	15.33
Tezoro broker a.d	28,389	7.60
OTP banka Srbija (custody account)	18,447	4.94
Jugobanka a.d., Beograd (in bankruptcy)	18,090	4.84
Physical body	17,440	4.62
BDD M&V Investments a.d Beograd	10,768	2.88
Others (490 of shareholders)	149,986	40.16
	373,510	**100.00**

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

On June 26, 2019 the Ministry of Finance of the Republic of Serbia repurchased shares which were held by the shareholders DEG-DEUTSHE INVESTITIONS and SVEDFUND INTERNATIONAL in the total percentage of 6.90%, and on November 26, 2019 repurchased EBRD shares 24.43%, IFC CAPITALIZATION FUND LP shares 10.15%, which increased percentage of ownership of Serbian Government to 83.23%.

On February 26, 2020 the Ministry of Finance of the Republic of Serbia announced that the representatives of Nova Ljubljanska banka d.d. (NLB) and the Minister of Finance of the Republic of Serbia, signed an Agreement on the purchase and sale of 83.23% of ordinary shares of Komercijalna banka AD Belgrade. By signing this agreement, the Bank acquired a new strategic partner, who took over the management of the Bank after the completion of the transaction. By signing the Agreement on the transfer of shares on December 30, 2020 between the Republic of Serbia and NLB d.d. Ljubljana, Slovenia, the process of selling Komercijalna banka a.d. was completed. The subject of the agreement was 83.23% of ordinary shares of Komercijalna banka, which made NLB d.d. Ljubljana the owner of shares held by the Republic of Serbia and the largest individual owner of the Bank with the right to manage.

On March 11, 2021, the NLB d.d. Ljubljana published an Offer to take over the remaining ordinary and the entire issue of preferred shares of Komercijalna banka a.d. Beograd. By additional acquisition of ordinary shares until December 31, 2021, the NLB d.d. Ljubljana increased its participation in the management shares of Komercijalna banka a.d. Beograd at 88.28%.

Revaluation reserves amounting to RSD 3,889,796 thousand (2020: RSD 8.544.078 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 959,025 thousand, revaluation reserves from valuation of equity instruments in the amount of RSD 1.856.965 thousand, revaluation reserves arising from the valuation of debt securities amounting to RSD 1.075.321 thousand and actuarial loss of RSD 1,515 thousand. Presented values include deferred tax effects.

35.2. Earnings per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	2021	2020 adjusted
Profit of the Parent Bank less priority dividends (in thousands of RSD)	3,638,602	2,522,631
Weighted average number of shares in the year	16,817,956	16,817,956
Basic earnings per share (in dinars without paras)	**216**	**150**

Basic earnings per share for the year 2021 amounts to RSD 216 or 21.64% of the nominal value of ordinary shares, while for 2020 adjusted earnings per share was RSD 150, or 15.00% of the nominal value of the ordinary shares.

35.3. Cumulative foreign exchange losses and gains on foreign transactions

In thousands of RSD

	Cumulative FX on the basis of shares in subsidiaries	Cumulative FX on the basis of intercompany transaction	Cumulative FX on income adjustments to the FX rate as at December 31	Total
Balance as at January 1, previous year	**1,486,395**	**81,917**	**51,141**	**1,619,453**
Increase / Decrease	(729))	445	2	**(282)**
Balance as at December 31, previous year	**1,485,666**	**82,362**	**51,143**	**1,619,171**
Increase / Decrease	(1,485,666)	(82,362)	(51,143)	(1,619,171)
Balance as at December 31, current year				

36. EFFECTS OF SALE OF KB BANJA LUKA AND LOSS OF CONTROL OVER KB PODGORICA IN THE PROCESS OF LEGAL STATUS CHANGE

The total effect of the sale of Komercijalna banka a.d. Banja Luka and loss of control over Komercijalna banka a.d. Podgorica in the process of legal status changes, computed in relation to the carrying amount of the net assets of these subsidiaries on Closing day, was negative and amounted to RSD 2,208,649 thousand and thus was as follow:

Effects of Sale of Komercijalna Banka Banja Luka and Loss Of Control Over Komercijalna Banka Podgorica

		In thousand of RSD
Net assets		
1.	Share capital	6,825,370
2.	Profit / Loss	(1,357,883)
3.	Reserves	816,097
I TOTAL NET ASSETS (from 1 to 3)		6,283,584
II	Received funds	4,074,935
III LOSS FROM SALE / LOSS OF CONTROL (II-I)		**(2,208,649)**

Breakdown of the loss from sale of Komercijalna banka a.d. Banja Luka and loss of control over Komercijalna banka a.d. Podgorica in the process of legal status change, with an indication of outcomes recognized in the business books of Parent Bank and those that are not, is shown in the following overview:

Breakdown of loss from sale of Komercijalna Banka Banja Luka and loss of control over Komercijalna Banka Podgorica

		In thousand of RSD
1.	*Expenses and income recognized in the books of account KB BG*	
	- Expenses on impairment of equity investments	(1,266,587)
	- Income from sale	563
2.	*Unrecognized income in the books of account of KB BG and other effects*	
	- Unrealized FX difference on shares From investment day to Closing day	(1,484,411)
	- Effects of cumulative gain / loss of subsidiaries	1,357,883
	- Effects of reserves of subsidiaries	(816,097)
LOSS FROM SALE / LOSS OF CONTROL (1+2)		**(2,208,649)**

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

An analysis of assets and liabilities according to when they are expected to be due or settled is shown in the table below:

In thousands of RSD

December 31, 2021	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	82,055,481	-	**82,055,481**
Securities	41,076,574	108,667,445	**149,744,019**
Loans and receivables from banks and other financial organisations	26,186,999	2,943,702	**29,130,701**
Loans and receivables from clients	64,544,306	144,500,636	**209,044,942**
Investments in associates and joint ventures	-	1,479,000	**1,479,000**
Intangible assets	-	582,101	**582,101**
Property, plant and equipment	-	8,755,740	**8,755,740**
Investment property	-	2,610,531	**2,610,531**
Current tax assets	18,985	-	**18,985**
Deferred tax assets	512,015	-	**512,015**
Non-current assets held for sale and discontinued operations	101,614	-	**101,614**
Other assets	3,195,895	2,237,198	**5,433,093**
TOTAL ASSETS	**217,691,869**	**271,776,353**	**489,468,222**
Deposits and other liabilities to banks, other financial organisations and central bank	2,134,581	335	**2,134,916**
Deposits and other financial liabilities to clients	378,932,095	24,354,323	**403,286,418**
Provisions	-	4,251,729	**4,251,729**
Other liabilities	3,455,263	688,189	**4,143,452**
TOTAL LIABILITIES	**384,521,939**	**29,294,576**	**413,816,515**
Net	**(166,830,070)**	**242,481,777**	**75,651,707**

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

In thousands of RSD

December 31, 2020 - adjusted	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	86,892,070	-	**86,892,070**
Securities	20,819,030	137,619,626	**158,438,656**
Loans and receivables from banks and other financial organisations	15,991,777	2,873,706	**18,865,483**
Loans and receivables from clients	62,824,341	156,609,286	**219,433,627**
Intangible assets	-	578,413	**578,413**
Property, plant and equipment	-	6,743,199	**6,743,199**
Investment property	-	2,718,683	**2,718,683**
Current tax assets	19,661	-	**19,661**
Deferred tax assets	-	2,484	**2,484**
Non-current assets held for sale and discontinued operations	370,663	-	**370,663**
Other assets	4,723,511	2,082,489	**6,806,000**
TOTAL ASSETS	**191,641,053**	**309,227,886**	**500,868,939**
Deposits and other liabilities to banks, other financial organisations and central bank	7,245,858	850,332	**8,096,190**
Deposits and other financial liabilities to clients	374,147,298	32,044,769	**406,192,067**
Provisions	-	2,696,346	**2,696,346**
Current tax liabilities	2,079	-	**2,079**
Deferred tax liabilities	-	176,573	**176,573**
Other liabilities	4,803,434	766,444	**5,569,878**
TOTAL LIABILITIES	**386,198,669**	**36,534,464**	**422,733,133**
Net	**(194,557,616)**	**272,693,422**	**78,135,806**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

	In thousands of RSD Year ended December 31 2021	2020
Operations on behalf and for the account of third parties	4,047,859	4,146,427
Commitments	62,616,254	44,263,544
Receivables under repurchase agreements	-	1,175,802
Other off-balance sheet items	465,420,201	484,744,960
Total	**532,084,314**	**534,330,733**

Commitments

38.1 Guarantees and letters of credit

Banks, members of the GRoup issues guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

	In thousands of RSD Year ended December 31 2021	2020
Payment guarantees	7,400,757	5,088,246
Performance guarantees	10,882,641	7,131,239
Letters of credit	-	169,229
Balance as at December 31	**18,283,398**	**12,388,714**

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

38.2 Commitments

The breakdown of commitments is provided below:

	In thousands of RSD Year ended December 31 2021	2020
Unused portion of approved payment and credit card loan facilities and overdrafts	8,673,457	11,169,739
Irrevocable commitments for undrawn loans	29,867,267	20,191,910
Other irrevocable commitments	5,792,132	513,181
Balance as at December 31	**44,332,856**	**31,874,830**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

38.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Funds managed on behalf and for the account of third parties amount to RSD 4,047,859 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,265,543 thousand and relate to the long-term housing loans extended to retail customers, loans on the basis of the purchase of social apartments of budget institutions in the amount of RSD 397,693 thousand (loans taken from Beobanka in bankruptcy). Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 465,420,201 thousand, the Parent Bank, among other things, records nominal value of securities per custody operations performed for the account of its clients RSD 62,264,803 thousand, the nominal value of the securities in the portfolio of the Parent Bank RSD 143,207,644 thousand, the amount written-off of funds in RSD in the amount of RSD 26,945,546 thousand, and the amount written-off of financial assets in foreign currency in the amount of RSD 3,786,814 thousand, according to the NBS of the accounting write off balancing assets. The Parent Bank according to the issued permission to perform custody jobs saved and financial instruments in the accounts of clients' securities, what is off-balance evidence. The Bank takes no credit risk in respect of managed funds.

Moreover, in accordance with the regulations, other off-balance sheet assets include the value of the tangible assets received as collaterals securitizing loan repayment: residential and commercial real estate properties and other collaterals that amount to RSD 179,824,410 thousand.

38.4 Litigation

Based on the expert judgment of the Bank's Legal Department and the lawyers representing the members of the Group, in disputes against the members in 2021, the managements made provisions for potential losses in litigation in the amount of RSD 2,619,536 thousand (Note 33).

As at December 31, 2021 the Parent Bank has 46,782 registered proceedings against the Bank, the total value of RSD 5,944,758 thousand.

This amount includes both binding claims for payment and the values of the subject matter of the dispute indicated in the lawsuits with the determining claim. The stated amount does not include the amounts of interest and court expenses.

In addition, as at December 31, 2021, the Parent Bank has 13,674 registered proceedings against third parties, whose total value of the subject matter of the dispute is RSD 45,626,213 thousand.

The UCITS Fund Management Company KomBank INVEST a.d Belgrade has 1 registered procedure filed against the Company. Contingent liabilities based on court disputes - lawsuit filed against the Company amount to RSD 15,753 thousand. The Company does not have any registered proceedings against third parties.

38.5 Tax Risks

Tax systems in the Republic of Serbia, Montenegro and Bosnia and Herzegovina is undergoing continuous amendments. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The managements of members of the Group believe that tax liabilities recognized in the financial statements are fairly presented.

39. RELATED PARTY DISCLOSURES

Related parties of the Group consider to be as: parent bank, subsidiaries, associates, entities members of the same group or under joint control, members of Board of Directors and Audit Committee, Executive Board and managers as members of other committees with responsibilities and authorisation for planning, directing and controlling the bank operations (“key management”), close members of their families, as well as legal entities under the control or significant influence of key management and members of their families, in accordance with IAS 24.

In the normal course of business, a number of banking transactions are performed with related parties. These include loans, deposits, investments in equity securities, derivative instruments, payment transactions and other banking operations.

39.1 Parent company and subsidiaries

NLB d.d. Ljubljana, which owns 88.28% of the Bank's ordinary shares, has the largest share in the management rights of the Parent Bank. The Parent bank has one subsidiary: KomBank INVEST a.d., Belgrade. During 2021, Komercijalna banka a.d., Podgorica and Komercijalna banka a.d., Banja Luka ceased to be the subsidiary of the Parent Bank.

Consolidated transactions with subsidiaries are presented in Note 6.1.

39. RELATED PARTY DISCLOSURES (continued)

39.1 Parent Bank and subsidiaries (continued)

Loans and receivable from related parties

In thousands of RSD

	As of December 31, 2021			As of December 31, 2020		
Loans and receivables	**Balance items**	**Off-balance sheet**	**Total**	**Balance items**	**Off-balance sheet**	**Total**
NLB a.d.Beograd	8,408,902	-	8,408,902	5	-	5
NLB d.d. Ljubljana	593,929	-	593,929	6,085	-	6,085
NLB a.d. Banja Luka	17,291	-	17,291	-	-	-
NLB a.d. Podgorica	1,489,560	-	1,489,560	-	-	-
NLB Srbija d.o.o.	605	-	605	-	-	-
Prvi faktor d.o.o. Beograd	1	-	1	-	-	-
REAM d.o.o Beograd	137	1	138	-	-	-
Beomox doo	17,130	-	17,130	19,968	122	20,090
PMC Inženjering	-	-	-	844,093	-	844,093
Emi house	-	-	-	1	-	1
Physical bodies	54,543	2,637	57,180	178,950	18,138	197,088
Total	**10,582,098**	**2,638**	**10,584,736**	**1,049,102**	**18,260**	**1,067,362**

Liabilities	**Deposits**	**Received loans**	**Total**	**Deposits**	**Received loans**	**Total**
NLB a.d. Beograd	59,460	-	59,460	-	-	-
NLB d.d. Ljubljana	18,776	-	18,776	-	-	-
NLB a.d. Podgorica	8,212	-	8,212	-	-	-
NLB Interfinanz d.o.o Beograd	5	-	5	-	-	-
NLB Leasing d.o.o	40	-	40	-	-	-
Prvi faktor d.o.o. Beograd	22	-	22	-	-	-
REAM d.o.o Beograd	115	-	115	-	-	-
Beomox doo	5,318	-	5,318	7,344	-	7,344
Arhitektonski biro STUDIO 3	-	-	-	389	-	389
Reprezent d.o.o.	-	-	-	12	-	12
Bolero ZR	-	-	-	64	-	64
Euros osiguranje Banja Luka	-	-		25,507	-	25,507
Deposit Insurance Agency of Republika Srpska	-	-	-	50,994	-	50,994
Native Association of Serbs of the Uskoplje Valley Bugojno - Donji Vakuf	-	-	-	42	-	42
Physical bodies	141,752		141,752	403,348	-	403,348
Total	**233,700**	**-**	**233,700**	**487,700**	**-**	**487,700**

39. RELATED PARTY DISCLOSURES (continued)

39.2. Income and expenses incurred with related parties

In thousands of RSD

	2021		
	Interest	Fees	Total
Income			
NLB a.d. Beograd	38,806	4,391	43,197
NLB d.d. Ljubljana	1	2,639	2,640
NLB a.d. Banja Luka	-	595	595
NLB a.d. Podgorica	-	20,409	20,409
Beomox doo	420	1,331	1,751
Physical bodies	1,006	386	1,392
Total income	**40,233**	**29,751**	**69,984**
Expenses			
NLB a.d. Beograd	(35)	(5,036)	(5,071)
NLB d.d. Ljubljana	(839)	(3,940)	(4,779)
NLB a.d. Banja Luka	-	(293)	(293)
NLB a.d. Podgorica	-	(200)	(200)
NLB Interfinanz d.o.o Beograd	-	(5)	(5)
NLB Srbija d.o.o.	-	(5)	(5)
Prvi faktor d.o.o. Beograd	-	(26)	(26)
Beomox doo	(1)	(797)	(798)
Physical bodies	(455)	(62)	(517)
Total expenses	**(1,330)**	**(10,364)**	**(11,694)**
Net income / expenses	**38,903**	**19,387**	**58,290**

39. RELATED PARTY DISCLOSURES (continued)

39.2. Income and expenses incurred with related parties (continued)

In thousands of RSD

	For period January 1 to December 31, 2020		
	Interest	Fees	Total
Income			
PMC Inženjering	9,475	29	9,504
Arhitetonski biro STUDIO 3	-	8	8
Beomox doo	551	318	869
NLB Beograd	40	864	904
NLB d.d. Ljubljana	1	1,357	1,358
Emi house	-	63	63
Bolero ZR	-	19	19
Win Win Retail	-	416	416
WinWin Shop	-	242	242
Euros osiguranje Banja Luka	-	7	7
Deposit Insurance Agency	-	9	9
Native Association of Serbs of the Uskoplje Valley Bugojno - Donji Vakuf	-	7	7
Physical bodies	7,494	810	8,304
Total income	**17,561**	**4,149**	**21,710**
Expenses			
Beomox doo	(7)	-	(7)
Euros osiguranje Banja Luka	(559)	-	(559)
NLB Beograd	-	(642)	(642)
NLB d.d. Ljubljana	(67)	(1,385)	(1,452)
Deposit Insurance Agency	(153)	-	(153)
Physical bodies	(2,174)	(25)	(2,199)
Total expenses	**(2,960)**	**(2,052)**	**(5,012)**
Net income	**14,601**	**2,097**	**16,698**

39.3 Gross and net remunerations paid to the management of the members of the Group and total remunerations paid to members of Board of Directors and Audit Committee were as follows:

In thousands of RSD

	Year ended December 31	
	2021	2020
Gross remunerations		
Executive Board	155,228	164,469
Net remunerations		
Executive Board	116,690	125,785
Gross remunerations		
Board of Directors and Audit Committee	10,661	26,369
Net remunerations		
Board of Directors and Audit Committee	7,133	16,957

40. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Unreconciled outstanding item statements

Based on the obligation to reconcile the balances with the debtors as at December 31, 2021, the Parent Bank forwarded 5,487 open item statements.

Based on the analysis of the Annual Physical Inventory Count as at December 31, 2021, the Parent Bank has inconsistent statements of outstanding items for 36 clients.

Non-reconciled statements for 23 clients relate to clients who challenge the amount of receivables for given advances, receivables from issued invoices and rent receivables in the total amount of RSD 4,614 thousand.

Five clients dispute receivable for domestic payment charge and the issue agent's fee in RSD in the total amount of RSD 138 thousand. Seven clients dispute receivables from loans in the total amount of RSD 1,435 thousand and one client disputes the balance in the off-balance sheet item in RSD 108 thousand.

The amount of allowances for impairment for disputed receivables (and the amount of provisions for balance sheet items) is determined by the Parent Bank's credit risk policy.

The Parent Bank is in a continuous process of reconciliation of disputed items.

UCITS Fund Management Company KomBank INVEST a.d., Beograd does not have any unreconciled open item statements.

41. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period incurred in the Parent Bank

An extraordinary session of the Bank's Assembly was held as at February 2, 2022 at which the following decisions were made:

- Decision on amendments to the Bank's Article of Association;
- Decision on adoption of the Article of Association; and
- Decision on amendments to the Decision on accepting the merger of NLB Bank a.d. Beograd to Komercijalna banka a.d. Beograd.

On February 25, 2022, an extraordinary session of the Bank's Assembly was held, at which the following Decision was made:

- Decision on Amendments to the Decision on Acquisition of the Bank's Own Shares by Dissenting Shareholders

Pursuant to the Decision, the Bank accepted the requests of dissenting shareholders for acquisition of 574,693 own ordinary shares.

The Bank is obliged to acquire own shares, and to pay dissenting shareholders who submitted request for repurchase their shares no later than March 8, 2022 (within 60 days from the expiration of 15 days from the Bank's Assembly closing session date at which the decision on legal status change was made, but upon receiving the prior consent of the NBS).

Events after the reporting period incurred in UCITS Fund Management Company KomBank INVEST a.d., Beograd

There were no events after the balance sheet date, until the date of issue of these financial statements, that would require any adjustments or additional disclosures in the consolidated financial statements.

Apart from the events described in the previous paragraphs, there were no significant events after the balance sheet date that would have to be disclosed in the financial statements.

42. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in RSD on December 31, 2021 and 2020 for certain major currencies are:

	Official exchange rate of the National Bank of Serbia		Average exchange rate of the National Bank of Serbia	
	2021	2020	2021	2020
USD	103.9262	95.6637	-	-
EUR	117.5821	117.5802	117.5736	117.5780
CHF	113.6388	108.4388	-	-
BAM	60.1188	60.1178	60.1144	60.1167

In Belgrade, March 03, 2022

Signed on behalf of Komercijalna banka a.d. Beograd by:

Dejan Janjatović Deputy of the Chief of the Executive Board	Vlastimir Vuković Chief Executive Officer

KOMERCIJALNA BANKA A.D. BEOGRAD

INDEPENDENT AUDITORS' REPORT AND

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

CONTENTS

This is English translation of the Report oriqinally issued in Serbian language (For management purposes only)

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF KOMERCIJALNA BANKA A.D. BEOGRAD

Opinion

We have audited the consolidated financial statements of KOMERCIJALNA BANKA a.d. Beograd (the Group), which comprise the consolidated balance sheet as at December 31, 2021 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International *Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

TC Stari Merkator | Palmira Toljatija 5/III | 11070 Novi Beograd | Republika Srbija | Tel/fax: +381 11 30 18 445
www.pkf.rs | mat.br. 08752524 | PIB 102397694 | t.r. 285-2011000000084-52 Sberbank | šifra delatnosti 6920

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matter
Adequacy of the loan loss provisions	
This is a key audit matter as significant judgement is involved to determine the loan loss provisions. The use of different modelling techniques and assumptions could produce significantly different estimates of impairment of loans to customers. The carrying amount of loans to customers amounts to RSD 209,044,942 thousand (or 42.71% of total assets) as at December 31, 2021. Key areas of judgement include the interpretation of requirements to determine impairment under application of IFRS 9, which is reflected in the Group's expected credit loss model, the identification of exposures with a significant increase in credit risk, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. industrial production index, EURIBOR rate, BELIBOR rate, unemployment) as disclosed in Note 4.1 Risk management - Credit risk, and evaluation and assumptions used in the possible outcomes of individually assessed loans for impairment as well as any judgements around economic effects. The possible outcomes are based on discounted cash flows for individually assessed loans and include judgement and complexity areas such as, impairment triggers, probabilities of relevant scenarios for cash flow forecasts and the cash flow forecasts themselves, including collateral realization. For further information, refer to Note 3(j) - Summary of significant accounting policies, "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 and Note 4.1 - Risk management - Credit risk of the accompanying financial statements.	We assessed the design and tested the operating effectiveness of internal controls over collective impairments within the loan portfolios, as well as the impairment assessment processes for individually assessed loans. We involved experts in the field of credit risk modelling for the review of IFRS 9 methodology and impairment models, as well as for the review of forward-looking information models, and information systems experts for the test of effectiveness of the IT general controls on the core system applications which support impairment calculations. We assessed the modelling techniques and methodology against the requirements of IFRS 9. We also assessed the appropriateness of significant assumptions used in models for calculating the loan loss provision. We examined a sample of exposures and performed procedures to evaluate the timely identification of exposures with a significant increase in credit risk and classification of instruments in stages according to IFRS 9. Our procedures included reassessment of the creditworthiness of clients and review of input parameters such as probability of default, days past due, watch-list triggers, or reprograms. We also re-performed management's impairment calculation on a sample of collectively impaired loans for mathematical accuracy. For individually impaired loans, our procedures included assessing the identification of loss events and testing of assumptions used in the models, including the forecasted future cash flows and the estimated value of underlying collaterals. For a sample of individually impaired loans, we understood the latest developments at the borrower and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation for mathematical accuracy. In addition, we tested key inputs to the impairment calculation including the expected future cash flows, their timing and valuation of collateral held, and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower. We assessed the adequacy of the disclosures included in Note 3(j) - Summary of significant accounting policies, "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 and Note 4.1 - Risk management - Credit risk of the accompanying financial statements.

Other matters

The consolidated financial statements of the Group as of and for the year ended December 31, 2020 were audited by another auditor, who expressed an unmodified opinion on the financial statements in its Report dated March 15, 2021.

Other information included in the Group's Annual Business Report

Other information consists of the information included in the Group Annual business report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the preparation of other information in accordance with the legal requirements of the Republic of Serbia.

Our opinion on the consolidated financial statements does not cover the Other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with Law on Accounting of Republic of Serbia, in particular, whether the other information complies with the Law on Accounting of Republic of Serbia in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures undertaken, to the extent we are able to assess it, we report that the other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and the other information is prepared in accordance with requirements of the Law on Accounting of Republic of Serbia.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management and Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards in force in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

TC Stari Merkator | Palmira Toljatija 5/III | 11070 Novi Beograd | Republika Srbija | Tel/fax: +381 11 30 18 445
www.pkf.rs | mat.br. 08752524 | PIB 102397694 | t.r. 285-2011000000084-52 Sberbank | šifra delatnosti 6920

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Group of which we are the independent auditors to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Group. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Belgrade, March 4, 2022

PKF BEOGRAD

Petar Grubor

Certified Auditor

for „PKF" d.o.o., Beograd
Palmira Toljatija 5/III
11070 Novi Beograd

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2021
(Thousands of RSD)

	Note	2021	2020 (adjusted)
Interest income	3c; 8	14,422,584	14,731,985
Interest expenses	3c; 8	(1,257,548)	(1,443,962)
Net interest gains		**13,165,036**	**13,288,023**
Income from fees and commissions	3d; 9	8,140,671	7,205,485
Expenses on fees and commissions	3d; 9	(2,063,067)	(1,938,963)
Net gains from fees and commissions		**6,077,604**	**5,266,522**
Net gain from changes in fair value of financial instruments	3e; 10	6,772	98,046
Net gain from derecognition of the financial instruments measured at fair value	3f; 11	197,257	174,399
Net exchange rate gains / (losses) and gains / (losses) from agreed currency clause	3b; 12	1,688,689	17,980
Net income / (expenses) from reduction in impairment of financial assets not measured at fair value through income statement	3j; 13	(475,358)	(1,264,236)
Net loss on derecognition of investments in associates and joint ventures	14	(1,954,463)	-
Other operating income	3g; 15	230,145	227,097
TOTAL NET OPERATING INCOME		**18,935,682**	**17,807,831**
Salaries, salary compensations and other personal expenses	3r; 16	(5,685,180)	(6,491,790)
Depreciation costs	3l; 3lj; 3h; 17	(1,085,357)	(1,136,168)
Other income	18	649,147	951,937
Other expenses	19	(10,231,132)	(7,247,683)
PROFIT BEFORE TAX		**2,583,160**	**3,884,127**
Profit tax	3i; 20	(4,676)	(7,309)
Gains from deferred taxes	3i; 20	373,225	122,101
Losses on deferred taxes	3i; 20	(174,116)	(1,391,735)
PROFIT AFTER TAX		**2,777,593**	**2,607,184**
RESULT FOR PERIOD - PROFIT		**2,777,593**	**2,607,184**
Profit belonging to a parent entity		**2,777,593**	**2,607,183**
Profit belonging to non-controlling owners		**-**	**1**
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	3u; 35.2	216	150
Diluted earnings per share (in dinars, without paras)	3u; 35.2	216	150

The accompanying notes on the following pages form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 3, 2022.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Dejan Janjatović
Deputy of the Chief of the Executive Board

Vlastimir Vuković
Chief Executive Officer

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2021
(Thousands of RSD)

	Note	2021	2021 (adjusted)
PROFIT FOR THE PERIOD		2,777,593	2,607,184
Other comprehensive income for the period			
Components of other comprehensive income which cannot be reclassified to profit or loss:			
Increase / Decrease in revaluation reserves based on intangible assets and fixed assets	20	(114,074)	7,894
Actuarial gains / losses	33	(151,336)	4,336
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	20	146,991	118,902
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	20	-	(863)
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	35	517,885	-
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	35	(3,919,071)	(488,647)
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	35	(1,619,188)	(282)
Taxable profit relating to other results of the period	20.5	594,006	69,996
Tax loss relating to other results of the period	20.5	(72,738)	(18,440)
Total positive / (negative) other comprehensive income		(4,617,525)	(307,104)
TOTAL POSITIVE RESULT FOR THE PERIOD			2,300,080
TOTAL NEGATIVE RESULT FOR THE PERIOD		1,839,932	
Total positive comprehensive income for the period attributable to the parent entity			2,300,079
Total positive comprehensive income for the period attributable to non-controlling owners			1
Total negative comprehensive income for the period attributable to the parent entity		1,839,932	
Total negative comprehensive income for the period attributable to non-controlling owners		-	

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 3, 2022.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Dejan Janjatović
Deputy of the Chief of the Executive Board

Vlastimir Vuković
Chief Executive Officer

CONSOLIDATED BALANCE SHEET
As at December 31, 2021
(Thousands of RSD)

	Note	December 31, 2021	December 31, 2020 *(adjusted)*	January 1, 2020 *(adjusted)*
ASSETS				
Cash and assets held with the central bank	3k; 21	82,055,481	86,892,070	76,654,402
Securities	3j; 22	149,744,019	158,438,656	144,479,431
Loans and receivables from banks and other financial organisations	3j; 23	29,130,701	18,865,483	26,990,004
Loans and receivables from clients	3j; 24	209,044,942	219,433,627	208,234,158
Investments in associates and joint venture	3j; 25	1,479,000	-	-
Intangible investments	3lj; 26	582,101	578,413	754,500
Property, plant and equipment	3l; 27	8,755,740	6,743,199	7,254,391
Investment property	3m;2.5.1;28	2,610,531	2,718,683	3,170,619
Current tax assets	20	18,985	19,661	6,786
Deferred tax assets	20	512,015	2,484	1,076,255
Non-current assets held for sale and discontinued operations	29	101,614	370,663	500,740
Other assets	3j; 30	5,433,093	6,806,000	7,602,611
TOTAL ASSETS		**489,468,222**	**500,868,939**	**476,723,897**
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits and other liabilities to banks, other financial organisations and central bank	3o; 31	2,134,916	8,096,190	8,318,606
Deposits and other financial liabilities to clients	3o; 32	403,286,418	406,192,067	370,987,710
Provisions	3l; 33	4,251,729	2,696,346	2,483,410
Current tax liabilities	20	-	2.079	2.673
Deferred tax liabilities	20	-	176,573	32,349
Other liabilities	3h; 34	4,143,452	5,569,878	14,559,570
TOTAL LIABILITIES		**413,816,515**	**422,733,133**	**396,384,318**
EQUITY				
Share capital	3t; 35	40,034,550	40,034,550	40,034,550
Profit	2.5.1;35.1	9,579,290	5,385,674	10,949,899
Loss	35.1		(1,261,380)	(1,370,332)
Reserves	3t; 36.1	26,037,867	33,976,892	30,725,392
Non-controlling interest	3t;35	-	70	70
TOTAL EQUITY		**75,651,707**	**78,135,806**	**80,339,579**
TOTAL LIABILITIES AND EQUITY		**489,468,222**	**500,868,939**	**476,723,897**

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 3, 2022.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Dejan Janjatović
Deputy of the Chief of the Executive Board

Vlastimir Vuković
Chief Executive Officer

80

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2021 to December 31, 2021
(Thousands of RSD)

DESCRIPTION	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Revaluation reserves (debit balance)	Profit	Loss	Non-controlling interest	Total
Opening balance as at January 1, 2020	17,191,466	22,843,084	21,849,594	8,876,046	(248)	9,981,896	(1,370,332)	70	79,371,576
Change in accounting policies and previous year material errors correction - increase	-	-	-	-	-	1,056,880	-	-	1,056,880
Change in accounting policies and previous year material errors correction - decrease	-	-	-	-	-	(88,877)	-	-	(88,877)
Adjusted opening balance as at January 1, 2020	17,191,466	22,843,084	21,849,594	8,876,046	(248)	10,949,899	(1,370,332)	70	80,339,579
Total positive other comprehensive income for the period	-	-	-	13	248	-	-	-	261
Total negative other comprehensive income for the period	-			(331,981)	-		-	-	(331,981)
Profit for the current year	-	-	-	-	-	2,607,183	-	1	2,607,184
Distribution of profit – increase	-	-	3,583,264	-	-	-	-	-	3,583,264
Distribution of profit and/or coverage of losses – decrease	-	-	-	-	-	(3,692,069)	108,805	-	(3,583,264)
Dividend payments	-	-	-	-	-	(4,477,879)		-	(4,477,879)
Other – increase	-	-	-	-	-	24,580		-	24,580
Other – decrease	-	-	(44)		-	(26,040)	147	(1)	(25,938)
Total transactions with owners	-	-	3,583,220	-	-	(8,171,408)	108,952	1	(4,479,235)
Balance as at December 31, 2020	17,191,466	22,843,084	25,432,814	8,544,078	-	5,385,674	(1,261,380)	70	78,135,806

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2021 to December 31, 2021
(Thousands of RSD)

DESCRIPTION	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Revaluation reserves (debit balance)	Profit	Loss	Non-controlling interest	Total
Opening balance as at January 1, 2021	17,191,466	22,843,084	25,432,814	8,544,078	-	5,385,674	(1,261,380)	70	78,135,806
Adjusted opening balance as at January 1, 2021	17,191,466	22,843,084	25,432,814	8,544,078	-	5,385,674	(1,261,380)	70	78,135,806
Total positive other comprehensive income for the period	-	-	-	84,129	-	-	-	-	84,129
Total negative other comprehensive income for the period	-			(4,738,089)	(322)	-	-	-	(4,738,411)
Profit for the current year	-	-	-	-	-	2,777,593	-	-	2,777,593
Transfer from reserves due to cancellation of reserves - increase			-	-	-	2,869,029	-	-	2,869,029
Distribution of profit – increase	-	-	4,060	-	-	-	-	-	4,060
Distribution of profit and/or coverage of losses – decrease	-	-	-		-	(63,705)	59,645	-	(4,060)
Dividends paid	-	-	-	-	-	-	-	-	-
Other – increase	-	-	-	-	-	623,402	(588,441)		34,961
Other – decrease	-		(3,288,803)		-	(2,012,703)	1,790,176	(70)	(3,511,400)
Total transactions with owners	-	-	(3,284,743)	-	-	(1,453,006)	1,261,380	(70)	(3,476,439)
Balance as at December 31, 2021	17,191,466	22,843,084	22,148,071	3,890,118	(322)	9,579,290	-	-	75,651,707

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 3, 2022.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Dejan Janjatović
Deputy of the Chief of the Executive Board

Vlastimir Vuković
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2021 to December 31, 2021
(Thousands of RSD)

	2021	2020
A. CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**25,446,478**	**21,581,613**
Interest	14,889,292	13,604,447
Fees	7,752,753	7,284,436
Other operating income	2,788,538	683,338
Dividends and profit sharing	15,895	9,392
Cash outflow from operating activities	**(15,868,038)**	**(14,013,944)**
Interest	(911,886)	(1,265,765)
Fees	(1,911,461)	(1,978,998)
Gross salaries, salary compensations and other personal expenses	(5,017,594)	(5,122,271)
Taxes, contributions and other duties charged to income	(995,213)	(978,253)
Other operating expenses	(7,031,884)	(4,668,657)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	**9,578,440**	**7,567,669**
Decrease in financial assets and increase in financial liabilities	**19,456,510**	**36,835,517**
Decrease loans and other receivables from banks and other financial organizations, central banks and clients	9,561,951	-
Decrease in receivables under securities and other financial assets not intended for investment	9,894,384	2,178,771
Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	175	34,656,746
Increase in financial assets and decrease in financial liabilities	**(6,742,129)**	**(3,650,257)**
Increase in loans and receivables from banks, other financial organisations, central bank and clients	-	(3,650,257)
Decrease in deposits and other financial liabilities to banks and other financial organizations, central banks and clients	(6,742,129)	-
Net cash inflow from operating activities before profit tax	**22,292,821**	**40,752,929**
Profit tax paid	(6,674)	(20,776)
Dividend payment	(94,154)	(14,239,507)
Net cash inflow from operating activities	**22,191,993**	**26,492,646**

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2021 to December 31, 2021
(Thousands of RSD)

	2021	2020
B. CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**38,253,759**	**21,086,961**
Investment in investment securities	34,836,545	21,077,661
Sale of investments in subsidiaries and associates and joint ventures	2,586,872	-
Sale of intangible investments, property, plant and equipment	504,510	2,629
Sale of investment property	325,479	6,671
Other inflows	353	-
Cash outflow from investing activities	**(42,979,990)**	**(39,249,471)**
Investment into investment securities	(39,769,940)	(39,063,178)
Investments into subsidiaries and associates and joint ventures	(71)	-
Purchase of intangible investments, property, plant and equipment	(3,209,979)	(186,293)
Net cash inflow / (outflow) from investing activities	**(4,726,231)**	**(18,162,510)**
C. CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**329,812,712**	**333,140,560**
Loans taken	329,732,785	333,140,560
Other inflows	79,927	-
Cash outflow from financing activities	**(342,723,842)**	**(331,904,157)**
Purchase of own shares	(6,824,805)	-
Loans taken	(335,284,099)	(331,360,621)
Other outflow from financing activities	(614,938)	(543,536)
Net cash inflow / (outflow) from financing activities	**(12,911,130)**	**1,236,403**
TOTAL CASH INFLOW	412,969,459	412,644,651
TOTAL CASH OUTFLOW	(408,414,827)	(403,078,112)
NET INCREASE / (DECREASE) IN CASH	**4,554,632**	**9,566,539**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**54,055,112**	**44,519,620**
EXCHANGE RATE GAINS	2,585,309	1,542,046
EXCHANGE RATE LOSSES	(557,017)	(1,573,093)
CASH AND CASH EQUIVALENTS AT END-PERIOD	**60,638,036**	**54,055,112**

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 3, 2022.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Dejan Janjatović
Deputy of the Chief of the Executive Board

Vlastimir Vuković
Chief Executive Officer

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

Komercijalna banka a.d. Beograd (hereinafter "The Parent bank") was established on December 1, 1970, and was transformed into a joint stock company on May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered in the Business Registers Agency on April 14, 2006. The Bank was granted a banking license from the National Bank of Yugoslavia on July 3, 1991. The tax identification number of the Parent bank is 100001931.

Control over the Parent bank has the following entity:
NLB d.d. Ljubljana, 88.28%

By signing the Agreement on the transfer of shares on December 30, 2020 between the Republic of Serbia and NLB d.d. Ljubljana the process of selling Komercijalna banka a.d. Beograd is completed. The subject of the agreement was 83.23% of Komercijalna banka ordinary shares, which made NLB d.d. Ljubljana the owner of shares which have been held by the Republic of Serbia and the largest individual owner of the Parent bank with the right to manage.

At the end of 2021, the parent bank has one subsidiary and one associate with ownership participation:
- 100.00% - UCITS Fund Management Company KomBank INVEST a.d., Belgrade, Serbia and
- 23.9686% - NLB banka a.d. Podgorica, Montenegro.

Consolidated financial statements and notes to the consolidated financial statements are the data of the Parent Bank, Komercijalna Banka ad, Podgorica, Komercijalna Banka ad, Banja Luka and UCITS Fund Management Company KomBank INVEST a.d., Belgrade Belgrade and NLB Bank AD Podgorica (hereinafter "Group").

Komercijalna banka ad Podgorica was founded in November 2002 as an affiliate of Komercijalna banka ad Belgrade and registered in the central registry of the Commercial Court in Podgorica on March 6, 2003. The registration number of Komercijalna banka ad, Podgorica is 02373262. In July 2018 Komercijalna banka a.d. Budva has changed the name and registered headquarter from Komercijalna banka ad, Budva to Komercijalna banka ad, Podgorica with headquarters in Podgorica.

On October 13, 2021 , at the headquarters of NLB Bank in Podgorica, the Merger Agreement was signed via the merger of Komercijalna banka a.d. Podgorica to the NLB Banka a.d. Podgorica. The signing of this agreement was preceded by the adoption of the proposal of the Agreement with the corresponding decisions made at the extraordinary general meetings of shareholders of both banks held on October 12, 2021.

The last day when Komercijalna banka a.d. Podgorica operated is to be considered November 12, 2021, when the merger of Komercijalna banka a.d. Podgorica to the NLB Banka a.d. Podgorica, was carried out. As of December 31, 2021, the parent bank had 23.97% of shares NLB banka a.d. Podgorica

Komercijalna banka AD, Banja Luka was established in September 2006 and on September 15, 2006 it was registered in the court register by the Decision of the Basic Court in Banja Luka. The registration number of Komercijalna banka ad, Banja Luka is 11009778.

Sales&Purchase Agreement signed on October 27, 2021 between Banka Poštanska štedionica and Komercijalna banka a.d., Beograd on sale of Komercijalna banka a.d. Banja Luka. Thus, sale&purchase of 100% of shares Komercijalna banka a.d. Banja Luka was realized on the Banja Luka Stock Exchange after obtaining the consent of regulatory bodies: the Banking Agency of the Republic of Srpska, the National Bank of Serbia and the Commission for Protection of Competition of the Republic of Serbia.

Legal status change of Komercijalna banka a.d. Podgorica and the sale of Komercijalna banka a.d. Banja Luka caused change in composition of the Group both in terms of members (the sale of Komercijalna banka ad Banja Luka) and in terms of the control level (legal status change - merger of Komercijalna banka ad Podgorica); (in respect of this issue, the Parent Bank at the end of 2021 has significant influence in the associate).

Investment fund Management Company KomBank INVEST ad Belgrade was established in December 2007 and registered on February 5, 2008. The Company's registration number is 20379758. In accordance with the Law on Open-End Investment Funds with a public offering, as of November 4, 2020 the business name has changed to the UCITS Fund Management Company KomBank INVEST a.d., Belgrade.

The Group's activities include credit, deposit and guarantee operations and payment transactions in the country and abroad in accordance with the Banking Law, as well as investment fund management activities. The Group is obliged to operate according to the principles of liquidity, safety and profitability.

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP (continued)

On December 31, 2021, the Group consists of: the head office and the headquarters of the Home Bank in Belgrade, at St. Sava Street no. 14; the head office of the UCITS Fund Management Company KomBank INVEST a.d., Belgrade, at Kralja Petra Street no. 19; the head office of the NLB bank a.d. Podgorica at Bulevar Stanka Dragojevića Street no. 46 Podgorica; 6 business centres, 3 sectors that work with small and medium enterprises 20 branches and 192 sub-branches and one teller-window in the territory of Serbia and Montenegro (2020:6 business centres, 3 divisions for SMEs operations, 20 branches and 213 sub-branches).

As at December 31, 2021 the Group had 2,745 employees, and on December 31, 2020 had 2,985 employees.

2. BASIS FOR PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis for preparation and presentation of consolidated financial statements

The Group's consolidated financial statements for year ended December 31, 2021 were compiled in accordance with International Financial Reporting Standards (IFRS).

The attached consolidated financial statements are presented in the format prescribed by the Decision on the Forms and Contents of Positions in the Forms of the Financial Statements for Banks ("Official Gazette of the Republic of Serbia" No. 93/2020).

Consolidated financial statements have been prepared in accordance with the historical cost principle, unless otherwise stated in the accounting policies set out below.

In preparing these financial statements, the Group applied the accounting policies set out in Note 3.

During 2021, the Group members kept their accounts and compiled individual financial statements in accordance with local legal regulations, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as regulations of competent central banks and regulatory body. The standalone financial statements have been audited by external auditors, in accordance with local regulations.

For the purpose of preparing consolidated financial statements, individual financial statements of subsidiary banks have been adapted to the presentation of financial statements based on the accounting regulations of the Republic of Serbia.

The consolidated financial statements of the Group are expressed in thousands of RSD. Dinar represents the official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts are quoted in RSD and rounded up in thousands.

Functional currencies of the EUR from the financial statements of Komercijalna banka ad., Podgorica and BAM from the financial statements of Komercijalna banka ad, Banja Luka are translated into the reporting currency, i.e. the functional currency of the Parent Bank - dinar (RSD) on the basis of the official published rates in the Republic of Serbia.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021
2. BASIS FOR PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2. Changes and additions to IFRSs whose implementation are mandatory in the current year

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2021:

- **IFRS 16: Leases and IFRIC 23: Uncertainty over Income Tax Treatment**

Pursuant to the Decision on Determining the Translation of International Financial Reporting Standards (Official Gazette of the RS, Nos. 123/2020 and 125/2020) a translation of all IFRS, including IFRS 16 Leases, was published. furthermore, the basic texts of IAS or IFRS are applied starting from the financial statements prepared as of December 31, 2021, while the earlier application to the financial statements prepared as of December 31, 2020 is possible with disclosure. relevant information in the Notes to the financial statements. Therefore, under the Decision translation of the new IFRS 16 - Leases and IFRIC 23 - Uncertainty over Income Tax Treatment was published, while other standards are disclosed under repeated translation published in previous decision which is repealed except in the case of its application when preparing financial statements on 31 December 2020, with mandatory application of all standards starting from the financial statements as of December 31, 2021.

2.3. Standards that are issued but not yet effective and were not adopted in the past

- **IAS 12 Income Taxes: Amendments Related to Deferred Taxes**

On May 7, 2021, the IASB issued “Deferred Tax on Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)” clarifying how entities compute deferred tax on transactions such as leasing and decommissioning obligations. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IFRS 17 Insurance Contracts (Amendments)**

On June 25, 2020, the IASB issued "Amendments to IFRS 17" in order to overcome the implementation challenges identified after the publication of IFRS 17 "Insurance Contracts" in 2017. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IAS 1 and IFRS 2 - Changes in Disclosure of Accounting Policies**

On February 12, 2021, the IASB issued “Accounting Disclosures (Amendments to IAS 1 and the IFRS Statement of Practice 2)” with amendments aimed at assisting preparers in deciding which accounting policies to disclose in their financial statements. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors - Changes in Disclosure of Accounting Policies**

The standard requires compliance with any specific IFRSs that apply to a transaction, event or condition, and provides guidance on the development of accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally considered retrospectively, while changes in accounting estimates are generally calculated on a prospective basis. On February 12, 2021, the IASB issued a “Definition of Accounting Estimates (Amendments to IAS 8)” to help entities differentiate between accounting policies and accounting estimates. The changes are effective for annual periods beginning on or after January 1, 2023.

- **Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale of Assets between Investors and Subsidiaries**

The amendments indicate a known discrepancy between the requirements in IFRS 10 and those in IAS 28, related to the sale or transfer of assets between an investor and its subsidiaries and joint ventures. The main consequence of the changes relates to the fact that the total loss or gain is recognized when the transaction affects the business (regardless of whether it is a subsidiary or not). Partial gain or loss is recognized when the transaction affects a non-business asset, even when the asset is part of a subsidiary. In December 2015, the International Accounting Standards Board postponed the date of application of this standard indefinitely pending the outcome of the research related to the application of participation methods. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Group’s financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

2. BASIS FOR PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3. Standards that are issued but not yet effective and were not adopted in the past (continued)

- **IAS 1 Presentation of Financial Statements: Classification of Short-Term and Long-Term Liabilities (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022, and earlier application is permitted. The International Accounting Standards Board has issued an exposure proposal to postpone the entry into force of these amendments until January 1, 2023. The purpose of the amendments is to promote consistency in the application of requirements by helping companies determine whether the statement of financial position, debts and other liabilities uncertain maturity dates need to be classified as short-term or long-term. The amendments affect the presentation of liabilities in the statement of financial position and do not change the existing requirements regarding the measurement or timing of recognition of any assets, liabilities, income or expenses, or the information that the company discloses about these items. Also, the amendments clarify the requirements for the classification of debt that a company can settle by issuing its own equity instruments. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The International Accounting Standards Board has issued amendments to IFRS of narrow scope as follows:

- **IFRS 3 Business Combinations (Amendments)** updates the reference in IFRS 3 Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibits an entity from deducting from the cost of property, plant and equipment amounts received from the sale of manufactured items while the company is preparing an asset for its use. Instead, the company will recognize such sales revenue and related costs in the income statement.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** what costs an entity includes in determining the cost of performing a contract to assess whether the contract is onerous.
- **Annual improvements** lead to minor changes to IFRS 1, the first-time adoption of International Financial Reporting Standards, if IFRS 9 Financial Instruments, IAS 41 Agriculture and Illustrative Examples accompany IFRS 16 Leases.

The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

- **Interest Rate Benchmark Reform - Phase 2 - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

In August 2020, the International Accounting Standards Board (IASB) has published 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments provide temporary relief to address the effects of financial reporting when the interbank offered rate (IBOR) is replaced by an alternative close to risk-free rate (RFR). In particular, the amendments provide for a practical exception when calculating changes in the basis for determining the contractual cash flows of financial assets and liabilities, in order to require an adjustment to the effective interest rate, equivalent to market interest rate movements. The amendments also introduce facilities for termination of a hedging relationship, including a temporary exemption from the need to meet a separately identifiable requirement when an RFR instrument is designated for a hedging risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurance companies that continue to apply IAS 39 to receive the same benefits as those provided for in the amendments to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures that enable users of financial statements to understand the effects of reference interest rate reform on financial instruments and entity risk management strategy. The amendments are effective for annual periods beginning on or after January 1, 2021, with the possibility of earlier application. When the application is retrospective, the entity is not required to modify data from prior periods. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Group's financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.4. Comparative data

For all amounts disclosed in the financial statements under the items of the current period, comparative data in respect of previous year is also presented, unless standards or interpretations allow or require otherwise. For amounts disclosed under application of IAS 8, comparative data is adjusted to the current year's ones.

In 2021, the Parent Bank changed its accounting policy in the matter subsequent evaluation of investment property and accordingly made appropriate adjustments to the previously stated Balance Sheet as of December 31, 2020, as well as the Income Statement for the year 2020. The adjustments were made in accordance with the requirements of IAS 8 - Accounting Policies, Changes in Accounting Policies and Errors, as explained in detail in Note 2.5.

2.5. Changes in accounting policies

Pursuant to the Decision made by Board of Directors dated December 17, 2021, the Parent Bank's management changed the accounting policy for subsequent evaluation of investment property and thus previously used cost method after initial recognition was replaced with the fair value method. The new policy applies to all investment properties of the Parent Bank.

The Parent Bank's management has voluntarily changed the accounting policy in order to comply it with the accounting policies of the NLB Group, as well as compiling financial statements that will result in providing more reliable and relevant information on the effects of transactions on the financial position and financial performance of the Bank.

2.5.1 Effects of changes in accounting policies

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires that changes in accounting policies be made retrospectively, unless the amount of resulting adjustments relating to relevant prior periods or the cumulative effect of accounting policies cannot be determined with sufficient reliability. Accordingly, on this basis, changes in the fair value of investment property, based on estimates of the value of individual properties from 2019, are recorded as an adjustment to the opening balance of retained earnings on January 1, 2020, while changes in fair value relative to estimates on December 31, 2020, recorded against income statement for 2020.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

a) Outcome of balance sheet adjustments on January 1, 2020

	2019	Adjustments +/-	January 1, 2020
ASSETS	***previous***		***adjusted***
Cash and assets held with the central bank	76,654,402	-	76,654,402
Securities	144,479,431	-	144,479,431
Loans and receivables from banks and other financial organisations	26,990,004	-	26,990,004
Loans and receivables from clients	208,234,158	-	208,234,158
Intangible assets	754,500	-	754,500
Property, plant and equipment	7,254,391	-	7,254,391
Investment property	2,202,616	968,003	3,170,619
Current tax assets	6,786		6,786
Deferred tax assets	1,076,255	-	1,076,255
Non-current assets held for sale and discontinued operations	500,740	-	500,740
Other assets	7,602,611	-	7,602,611
TOTAL ASSETS	**475,755,894**	**968,003**	**476,723,897**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	8,318,606	-	8,318,606
Deposits and other financial liabilities to clients	370,987,710	-	370,987,710
Provisions	2,483,410	-	2,483,410
Current tax liabilities	2,673	-	2,673
Deferred tax liabilities	32,349		32,349
Other liabilities	14,559,570	-	14,559,570
TOTAL LIABILITIES	**396,384,318**	**-**	**396,384,318**
EQUITY			
Share capital	40,034,550	-	40,034,550
Profit	9,981,896	968,003	10,949,899
Loss	1,370,332	-	1,370,332
Reserves	30,725,392	-	30,725,392
Non-controlling interests	70	-	70
TOTAL EQUITY	**79,371,576**	**968,003**	**80,339,579**
TOTAL LIABILITIES AND EQUITY	**475,755,894**	**968,003**	**476,723,897**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021
2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

b) Outcome of balance sheet adjustments on December 31, 2020

	2020	Adjustments +/-	2020
ASSETS	*previous*		*adjusted*
Cash and assets held with the central bank	86,892,070	-	86,892,070
Securities	158,438,656	-	158,438,656
Loans and receivables from banks and other financial organisations	18,865,483	-	18,865,483
Loans and receivables from clients	219,433,627	-	219,433,627
Intangible assets	578,413	-	578,413
Property, plant and equipment	6,743,199	-	6,743,199
Investment property	2,145,007	573,676	2,718,683
Current tax assets	19,661	-	19,661
Deferred tax assets	2,484	-	2,484
Non-current assets held for sale and discontinued operations	370,663	-	370,663
Other assets	6,806,000	-	6,806,000
TOTAL ASSETS	**500,295,263**	**573,676**	**500,868,939**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	8,096,190	-	8,096,190
Deposits and other financial liabilities to clients	406,192,067	-	406,192,067
Provisions	2,696,346	-	2,696,346
Current tax liabilities	2,079	-	2,079
Deferred tax liabilities	176,573	-	176,573
Other liabilities	5,569,878	-	5,569,878
TOTAL LIABILITIES	**422,733,133**	**-**	**422,733,133**
EQUITY			
Share capital	40,034,550	-	40,034,550
Profit	4,811,998	573,676	5,385,674
Loss	1,261,380		1,261,380
Reserves	33,976,892	-	33,976,892
Non-controlling interests	70		70
TOTAL EQUITY	**77,562,130**	**573,676**	**78,135,806**
TOTAL LIABILITIES AND EQUITY	**500,295,263**	**573,676**	**500,868,939**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

c) Outcome of income statement adjustments on December 31, 2020

	As of December 31, 2020 *previous*	Adjustments +/-	As of December 31, 2020 *adjusted*
Interest income	14,731,985	-	14,731,985
Interest expenses	(1,443,962)	-	(1,443,962)
Net interest gains	**13,288,023**	**-**	**13,288,023**
Income from fees and commissions	7,205,485	-	7,205,485
Expenses on fees and commissions	(1,938,963)	-	(1,938,963)
Net gains from fees and commissions	**5,266,522**	**-**	**5,266,522**
Net gains from changes in fair value of financial instruments	98,046	-	98,046
Net gains from derecognition of the financial instruments measured at fair value	174,399	-	174,399
Net exchange rate gains / (losses) and gains / (losses) from agreed currency clause	17,980	-	17,980
Net income / (expenses) from impairment of financial assets not measured at fair value through income statement	(1,264,236)	-	(1,264,236)
Other operating income	227,097	-	227,097
TOTAL NET OPERATING INCOME	**17,807,831**	**-**	**17,807,831**
Salaries, salary compensations and other personal expenses	(6,491,790)	-	(6,491,790)
Depreciation costs	(1,174,588)	38,420	(1,136,168)
Other income	921,602	30,335	951,937
Other expenses	(6,784,601)	(463,082)	(7,247,683)
PROFIT BEFORE TAX	**4,278,454**	**(394,327)**	**3,884,127**
Income tax	(7,309)	-	(7,309)
Gains from deferred taxes	122,101	-	122,101
Loss on deferred taxes	(1,391,735)	-	(1,391,735)
PROFIT AFTER TAX	**3,001,511**	**(394,327)**	**2,607,184**
		-	
RESULT FOR PERIOD - PROFIT	**3,001,510**	**(394,327)**	**2,607,184**
Profit attributable to equity owners			**2,607,183**
Profit attributable to non-controlling interests	**1**	**-**	**1**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.5. Changes in accounting policies (continued)

2.5.1. Effects of changes in accounting policies (continued)

d) Outcome of changes in equity adjustments for the year 2020

	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Revaluation reserves (debit balance)	Profit	Loss	Non-controlling interest	Total
Opening balance as at January 1, 2020	**17,191,466**	**22,843,084**	**21,849,594**	**8,876,046**	**(248)**	**9,981,896**	**(1,370,332)**	**70**	**79,371,576**
Changes in accounting policy	-	-	-	-	**-**	968,003	-	-	**968,003**
The adjusted opening balance as at January 1, 2020	**17,191,466**	**22,843,084**	**21,849,594**	**8,876,046**	**(248)**	**10,949,899**	**(1,370,332)**	**70**	**80,339,579**
Total positive other comprehensive income for the period			**-**	13	248				**261**
Total negative other comprehensive income for the period	-	-	-	(331,981)	-	-	-	-	**(331,981)**
Profit for the current year	-	-	-	-	-	3,001,510	-	1	**3,001,511**
Adjusted profit of the current year +/-						(394,327)	-		**(394,327)**
Distribution of profit – increase			3,583,264	-	-	-	-		**3,583,264**
Distribution of profit and/or coverage of losses – decrease	-	-	-	-	-	(3,692,069)	108,805		**(3,583,264)**
Dividend payments	-	-	-	-	-	(4,477,879)	-	-	**(4,477,879)**
Other – increase	-	-	(44)	-	-	(1,460)	147	(1)	**(1,358)**
Total transactions with owners	**-**	**-**	**3,583,220**	**-**	-	**(8,171,408)**	**108,952**	**-**	**(4,479,237)**
Balance as at December 31, 2020	**17,191,466**	**22,843,084**	**25,432,814**	**8,544,078**	-	**5,385,674**	**(1,261,380)**	**70**	**78,135,806**

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

e) Outcome of earning per share adjustments

	In thousands of RSD	*In RSD*
	Increase / decrease the results attributable to shareholders	Increase / decrease in basic earnings per share
Effects of changes in accounting policies	(394,327)	(23)

	2020	2020
	previous	*adjusted*
Basic earnings per shares (in RSD without paras)	173	150

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.6. Comparative summary of the consolidated balance sheet for December 31, 2020

Due to the legal change occurred within Group, the consolidated balance sheet for December 31, 2020 is presented below according to the Group's composition as at December 31, 2021 (excluding Komercijalna banka a.d. Podgorica and Komercijalna banka a.d. Banja Luka).

Outcomes of the balance sheet as at December 31, 2020:

	2020	Adjustments +/-	2020
ASSETS	*previous*		*adjusted*
Cash and assets held with the central bank	86,892,070	(6,846,963)	80,045,107
Securities	158,438,656	(4,509,767)	153,928,889
Loans and receivables from banks and other financial organisations	18,865,483	(707,034)	18,158,449
Loans and receivables from clients	219,433,627	(30,137,538)	189,296,089
Investments in associates and joint ventures	-	1,467,680	1,467,680
Intangible assets	578,413	(67,744)	510,669
Property, plant and equipment	6,743,199	(697,725)	6,045,474
Investment properties	2,145,007	(325,500)	1,819,507
Current tax assets	19,661	(7,347)	12,314
Deferred tax assets	2,484	-	2,484
Non-current assets held for sale and discontinued operations	370,663	(240,237)	130,426
Other assets	6,806,000	1,238,218	8,044,218
TOTAL ASSETS	**500,295,263**	**(40,833,957)**	**459,461,306**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	8,096,190	(3,107,103)	4,989,087
Deposits and other financial liabilities to clients	406,192,067	(33,492,666)	372,699,401
Provisions	2,696,346	(151,819)	2,544,527
Current tax liabilities	2,079	(2,079)	-
Deferred tax liabilities	176,573	(29,173)	147,400
Other liabilities	5,569,878	(593,510)	4,976,368
TOTAL LIABILITIES	**422,733,133**	**(37,376,350)**	**385,356,783**
EQUITY			
Share capital	40,034,550	-	40,034,550
Profit	4,811,998	524,192	5,336,190
Loss	(1,261,380)	1,261,380	-
Reserves	33,976,892	(5,243,109)	28,733,783
Non-controlling interests	70	(70)	-
TOTAL EQUITY	**77,562,130**	**(3,457,607)**	**74,104,523**
TOTAL LIABILITIES AND EQUITY	**500,295,263**	**(40,833,957)**	**459,461,306**

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

2.6. Comparative summary of the consolidated balance sheet for December 31, 2020 (continued)

Shown adjustments do not include those arose from retroactive application of changed accounting policies for subsequent evaluation of investment property of the Parent Bank, adopted in 2021 (the effects of the change in accounting policies are shown in Note 2.5).

Since the Parent Bank lost control over its subsidiary banks in November and December 2021, respectively, comparable data for the consolidated income statement have not been changed.

3. OVERVIEW OF BASIC ACCOUNTING POLICIES

(a) Consolidation

In 2021, the Parent bank has control over the following legal entities, the consolidation of which has been made in these financial statements:

Legal entity	Share in entity's capital
Komercijalna banka ad, Podgorica, Montenegro	100%
Komercijalna banka ad, Banja Luka, Bosnia and Herzegovina	99.99%
UCITS Fund Management Company KomBank INVEST a.d., Belgrade	100%

During 2021, the Parent bank lost control over:

- Komercijalna banka a.d. Podgorica, Montenegro due to the legal status change - merger to NLB banka a.d. Podgorica occurred in November 2021. The Bank's equity share in NLB banka a.d. Podgorica after the merger amounts to 23.97% and in this regard the legal status became associate of the parent bank;
- Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina by selling 100% of shares occurred in December 2021.

The consolidated financial statements show profit or loss, other comprehensive income of subsidiaries disposed during the year are recognized until the date of control loss.

Consolidated financial statements show investments in associates at equity method. Associates are entities in which the Parent Bank has between 20% and 50% of voting rights and over which it has significant influence but no control.

In accordance with the equity method, investments in associates are initially recognized at cost (investment amount), and then for changes that occur after the acquisition date, the Group's share in the net assets of the associate is adjusted. The Group's share of the profit or loss after the acquisition of an associate is recognized in the consolidated income statement, and its share of the other result is recognized in the other result of the Group. Dividends collected are recognized as a reduction in the carrying amount of the investment. A share in the loss of an associate is recognized up to the amount of the investment, unless the Group has committed or made a payment on behalf of the associate. The Group begins to recognize a share of the profit again after its share of the profit equals the share of the loss that was not recognized.

Standalone financial statements show investments in subsidiaries and associates at cost less impairment loss.

In order to prepare consolidated income statement and the consolidated cash flow statement reclassified forms of subsidiaries' standalone profit and loss statement and cash flow statement were recalculated using the average exchange rate of the National Bank of Serbia for the period January 1, 2021 as of the last day of control over subsidiaries – RSD 117.5725 for 1 EUR and RSD 60.1141 for 1 BAM, and other reclassified financial statements (statement of profit or loss and statement of changes in equity) using the closing rate on the last day of control over subsidiaries – RSD 117.5815 for 1 EUR, or 60.1194 for 1 BAM.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(b) Conversion of foreign exchange amounts

Business transactions in foreign currency are translated into RSD at the middle exchange rate of the currency that was valid on the day of the business transaction.

Monetary positions in foreign currency assets and liabilities, which are measured at cost, are translated into RSD according to the middle exchange rate prevailing at the balance sheet date. Foreign exchange differences arising from the translation of foreign exchange positions are presented in the profit and loss statement. Non-monetary positions of assets that are measured at cost in foreign currency are translated into RSD according to the average exchange rate of the currency that was valid on the day of the business transaction.

The exchange rates of the most important currencies used in the conversion of balance sheet items denominated in foreign currencies, determined by the National Bank of Serbia, are disclosed in Note 42.

(c) Interest

Interest income and expense is recognized in the income statement using the effective interest rate method. An effective interest rate is the rate at which future cash flows are discounted over the expected period of financial assets or liabilities (or, if necessary, for a shorter period) to its present value.

When calculating the effective interest rate, Group members estimate future cash flows taking into account all contractual terms relating to a financial instrument, but not future losses that may arise.

The calculation of the effective interest rate includes all paid or received fees and charges, which are an integral part of the effective interest rate – loan approval fees as well as annexation fees.

Transaction costs are costs directly attributable to the acquisition or the issuance of a financial asset or liability.

Recognition of interest income on impaired loans is done by net principle, by reducing the gross accrued interest for the amount of the impairment, or for the amount that is certain that it will not be charged.

Recognition of interest income on impaired placements that are classified as Stage 3, by net principle, is carried out using an alternative unwinding concept. When a financial asset becomes significantly impaired, from the moment of initial recognition, it becomes Stage 3, and interest income is calculated using an alternative concept of unwinding - IRC method by reducing the accrued interest income associated with it with the allowance for impairment losses recognized in the current year, whereby interest receivable is recognized at gross principle.

(d) Fees and commissions

Income from fees and commissions and expense, which are an integral part of the effective interest rate of a financial asset or liability, are included in the determination of the effective interest rate.

Other income from fees and commissions is recorded at the moment of services provided. Income from fees and commissions includes revenues from international and domestic payment services, issuance and use of payment cards, issuance of guarantees, letters of credit and other banking services. Fee and commission income is recorded at the time the services are provided. When the service is provided over time, the fees are accrued and a proportionate share is recognized as income for the period.

Fee and commission costs are mainly related to fees based on transactions and services performed and are recorded at the moment of receiving the service.

(e) Net gains based on the fair value measurement of financial instruments

Net gain based on the fair value of financial instruments includes gains less losses due to changes in value: derivatives, changes in the value of financial assets that are measured at fair value through profit and loss and gains less losses arising from changes in the value of financial liabilities valued at fair value through the profit and loss account.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(f) Net gains on the derecognition of financial instruments at fair value

Net gains on derecognition of financial instruments at fair value refer to financial assets and liabilities at fair value through profit and loss and fair value through other comprehensive income.

(g) Dividends

Dividend income is recognized at the moment of inflow of economic benefits from dividends. Dividends are shown in the position of other operating income.

(h) Leasing

At the beginning of the contract, the Group assesses whether the contract contains a leasing component or represents a lease. More specifically, it analyzes whether the contract transfers the right to control the use of separable assets over a defined period of time in exchange for a fee.

Group as leasee

The Group applies a uniform recognition and measurement approach for all leases except for short-term leases and leases of low value assets. The Group recognizes the leasing obligation to pay the lease and the right to use, which represents the right to use the fixed assets.

(i) Right of use assets

Initial recognition and measurement
The Group recognizes right of use asset on the day the lease begins (i.e. the date the asset is available for use). The right of use asset is measured at cost less accumulated depreciation and impairment losses, and is adjusted for any subsequent measurement of the lease liability. The cost of right of use asset includes the amount of recognized leasing liabilities, initial direct costs and lease payments made on or before the commencement date, less any lease incentives received.

Subsequent measurement
Right of use assets are depreciated on a straight-line basis over a period shorter than the lease term or the estimated useful life of the asset.

Right of use assets are amortized at a rate ranging from 92.31% to 6.70% annually, depending on the contractual right to use the asset. The right to use the assets is presented in Note 27 - Property, plant and equipment and are subject to impairment in line with the Group's policy as described in Note - Property and Equipment.

(ii) Leasing liabilities

At the commencement of the lease, the Group recognizes the lease liability, measured at the present value of the lease payment to be made during the lease term. Leasing payments include fixed payments less all lease incentive receivables, variable lease payments that depend on the index or rate, and amounts expected to be safely paid for residual value. Leasing payments also include the exercise price of the purchase option reasonably expected to be made by the Group and the payment of penalties for termination of the contract if the termination option is available to the Group for the duration of the contract.

Variable lease payments that do not depend on an index or rate are recognized as an expense (unless incurred to produce inventories) in the period in which the events or conditions that give rise to the payment occur.

In calculating the present value of a lease payment, the Bank uses its incremental borrowing rate at the date of commencement of the lease because the implied leasing interest rate is not easily determined. After the commencement date, the amount of the lease liability increases by the accrued interest for the previous period and decreases for the lease payments made. In addition, the carrying amount of a lease liability is remeasured if there is a modification of the contract, a change in the lease term, a change in the lease payment (e.g., changes in future payments resulting from a change in the index or rate used to determine such lease payments), or a change in the valuation of the purchase option. the underlying asset that is the subject of the lease.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

(ii) Leasing liabilities (continued)

In Parent Bank, in 2021 the incremental borrowing rate did not have large variations and ranged from 0.4748% to 2.4310 for EUR and 1.4690% to 4.7848 for RSD (in 2020: from 0.2305% to 3.1000% for EUR i.e. from 0.47950% to 4.95119% for RSD).

At Komercijalna Banka AD Banja Luka in 2021, the incremental borrowing rate ranged from 2.60% to 3.60% for KM (the same range was applied in 2020).

At Komercijalna Banka AD Podgorica, in 2021, the incremental borrowing rate ranged from 2.143% for EUR KM (the same range was applied in 2020).

(iii) Short-term leases and leases of low value assets

The Group applies an exemption from the recognition of short-term leases for its short-term leases of machinery and equipment (i.e. those leases that have a term of less than 12 months from the commencement date and do not include an option to purchase). The exemption from recognition for the lease of low value assets on the lease of office equipment also applies. Lease payments for short-term leases and leases of low value assets are recognized as an expense, pro rata over the lease term.

Group as a leasor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Lease income is calculated on a pro rata basis over the life of the contract and is recorded as income in the income statement because of its operational nature. The initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

(i) Tax expense

Tax expenses include current taxes and deferred taxes. Current taxes and deferred taxes are shown in the income statement except to the extent that they relate to items that are recognized directly within the capital or within the other comprehensive income.

(i) Current Profit tax

Current tax represents the expected liability or profit tax receivable for the accounting period, using tax rates applicable or effective at the reporting date, with appropriate tax adjustments from the previous year.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(i) Tax expense (continued)

(ii) Deferred taxes

Deferred taxes are determined in relation to temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the value of assets and liabilities for tax purposes. When defining deferred taxes, the tax rates that are expected to be applied at the time of occurrence of temporary differences are used and based on the legal regulations that were applied at the reporting date.

Deferred tax assets and deferred tax liabilities are netted if there is a legal right to net current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the tax on the profits imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a repayment or refund is expected the amount of deferred tax liabilities or assets.

Deferred tax assets are recognized for all deductible temporary differences and effects of tax losses and tax credits that can be transferred to subsequent fiscal periods to the extent that there is likely to be a taxable profit from which tax loss is transferred and loans can be reduced. Deferred tax assets are subject to an analysis at the end of each reporting period and are adjusted to the extent that it is no longer probable that the necessary taxable profit will be realized. Deferred tax liabilities are recognized for all taxable temporary differences.

(iii) Other taxes and contributions

In accordance with the applicable regulations in the Republic of Serbia, Montenegro and Bosnia and Herzegovina, the Group members pay different taxes and contributions, value added tax, capital gains tax and earnings contributions. These expenditures are included in "Other Expenses".

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

A financial asset is any asset that is:

- cash;
- equity instrument of another entity;
- contractual right to receive cash or another financial asset from another entity; or
- contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- contract that will or may be settled in the entity's own equity instruments and is and which is non-derivative and for which the Group is or may be required to receive a variable number of equity instruments;
- contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Financial liability

A financial liability is any liability that is:
- contractual obligation to deliver cash or another financial asset to another entity; or
- contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity;

Principles of measurement of financial instruments

From the aspect of classification and measurement, IFRS 9 introduces new criteria for the classification of financial assets, other than equity instruments and derivatives, based on an assessment of the business model of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

Financial assets

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

The business model determines whether cash flows arises from the collection of contracted cash flows, the sale of a financial asset or both. A business model for the classification of financial assets is determined at the appropriate level of aggregation.

Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist solely of principal and interest payments on the remaining principal (SPPI criterion).

Financial assets can be classified into the following categories:

- financial assets measured at amortized cost (AC)
- financial assets measured at fair value through profit and loss account (FVTPL)
- financial assets measured at fair value through other comprehensive income through the income statement - "recycling" (FVOCI)
- financial assets valued at fair value through other comprehensive income without recognition through profit and loss account (FVOCI)

In accordance with the classification of assets from the previous paragraph, the Group categorizes all placements from its portfolio relating 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 Group does not intend to sell in the short term
- **Securities that are measured at fair value through profit and loss statement** that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- **Securities, which include debt securities and equity securities (capital instruments)**:
  - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

- ➢ Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.
- ➢ Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and

- **Financial derivatives** that include forward and SWAP transactions.

Classification and measurement

From a classification and measurement perspective, the new standard required all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

According to IFRS 9, financial assets are being measured in one of the following methods: amortised cost, fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). Equity instruments that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Profit and loss statement.

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Profit and loss statement (FVTPL) in which these costs are recognized as cost in the Profit and loss statement.

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

- goal of a business model of holding a financial asset is the collection of contracted cash flows and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and are not indicated as FVTPL:

- goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.

When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the income statement. Interest calculated using the effective interest rate is recognized in the income statement.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement (continued)

Financial liabilities

After the initial measurement, financial liabilities are assessed at amortized cost. Amortized cost is calculated taking into account the discount or premium on financial liabilities or costs that are an integral part of the EIR.

The Group does not have financial liabilities designated as FVTPL.

Impairment of financial assets

The IFRS 9 incurred loss approach with a forward-looking expected credit loss (ECL) approach through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Group defined the criteria for classifying financial instruments into stages 1, 2 and 3, depending on the degree of increase in credit risk from the moment of initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments that are valued at fair value through other comprehensive income.

Stage 1

Impairment allowance of financial instruments that are not deemed to have a significant deterioration in credit risk are calculated on the basis of 12-month expected losses (ECL) in accordance with IFRS 9. Stage 1 also includes exposures to the Republic of Serbia, the National Bank of Serbia and other exposures with a credit risk weight of 0, in accordance with the Decision on capital adequacy of the bank, except for the exposure on the basis of mandatory reserve and similar exposures.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Impairment of financial assets (continued)

Stage 2

All financial instruments in which significant increase in credit risk has been realized are classified in stage 2, and impairment allowance are calculated on the basis of expected losses for the entire lifetime of the instrument.

The Group is considering whether there is a significant increase in credit risk by comparing the life probability of probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a significant increase in credit risk is considered to be days past due of 31 to 90 days of repayment, customer restructuring, and client being on the watch list.

Stage 3

Financial instruments are included in stage 3, where multiple collection scenarios were introduced. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Group also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established.

As different levels of impairment result in different ways of calculating the expected credit losses, the Group has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

“POCI "

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Wite-offs

The subject of write-offs are receivables that the Group failed to collect despite the implementation of all collection activities defined by its policies and procedures: extension, restructuring, settlement, taking over collateral to collect receivables, concluding contracts with interested third parties, litigation and other.

If the measures taken to regulate placements, ie forced collection and court proceedings did not give the expected results, ie when there is no possibility of collecting receivables in full, a proposal for permanent write-off of the Bank's remaining receivables or transfer from on-balance sheet to off-balance sheet records is initiated.

Pursuant to the Decision of the National Bank of Serbia on the accounting write-off of the balance sheet assets "Official Gazette of RS", no. 77/2017 dated August 10, 2017, the Bank write-off non-performing receivables in the case when impairment recorded in favor of allowance for impairment amounts 100% of its gross book value.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

(iii) Derecognition

Members of the Group cease to recognize a financial asset when the contractual rights over cash flows associated with an asset expire, or when a member of the Group transfers the transaction with all essential rights and benefits related to the ownership of a financial asset or if it does not transfer or retain all substantive property rights, but does not retain control over a financial asset. All ownership of a transferred financial asset that meets the criteria for termination of recognition that a Group member has created or retained is recognized as a separate asset or liability in the balance sheet. Upon derecognition of a financial asset, the difference between the carrying amount (or the carrying amount of the part of the asset transferred), and collect the received remuneration (including new assets acquired less for new assumed liabilities), as well as the aggregate gains or losses previously recognized in the report on the total result are recognized in the income statement.

A member of the Group carries out transactions by which it transfers the assets recognized in his balance sheet, although he reserves all or substantially, all the risks and benefits or part of the transferred assets. If all or substantially all risks and benefits are retained, then there is no cessation of recognition of the asset. The transfer of funds by retaining all or substantially all risks and benefits includes, for example, re-purchase transactions.

In the case of transactions in which a member of the Group neither holds, nor transfers substantially all the risks and rewards of ownership of a financial asset and retains control over the asset, a member of the Group continues to recognize the asset to the extent that its relationship with the asset continues, which is determined on based on its exposure to changes in the value of the transferred asset. A member of the Group shall execute the obligation when the obligation is settled, terminated or transferred to another.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

(iiii) Modifications

Amendments to the contract due to the financial difficulties of the debtor are not considered a significant modification leading to the derecognition of the financial asset.

In accordance with IFRS 9, the Group determines the new gross carrying amount of a financial asset and recognizes income or expense based on a modification in the profit and loss statement. The effect is recognized as income / expense based on the decrease / increase in impairment of financial assets that are not measured at fair value through profit or loss. The gross carrying amount of a financial asset is determined as the present value of the modified cash flows discounted at the original effective cash interest rate. Any transaction costs incurred adjust the carrying value of the modified financial asset and are amortized over its useful life.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

(iiiii) Netting

Financial assets and liabilities are netted and the net amount is disclosed in the statement of financial position only when the Group has the legal right to net recognized amounts and when it intends to settle liabilities on a net basis or at the same time realize the asset and settle the obligation.

Income and expense is disclosed by net principle only when permitted by IFRS or for income and expenses arising from a group of similar transactions, such as transactions held by the Group's members in trading.

Accounting policies for calculation of Expected Credit Losses are described in Note 4. Risk Management, 4.1. Credit risk - IFRS 9 Financial Instruments.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, assets with central banks that can be unrestrictedly disposed of and highly liquid financial assets with originally initial maturity shorter than 3 months, low risk of change in value, used by the members of the Group for short-term liquidity management. Cash is measured at amortized cost in the balance sheet.

(l) Property and equipment

(i) Recognition and measurement

Initial measurement of property and equipment is done at cost.

The cost includes expenses directly attributable to the acquisition of the asset. Purchased software, which is an integral part of the software necessary for the functional usability of the equipment, is capitalized as part of this equipment.

After initial recognition, the equipment is measured at cost less accumulated depreciation and total accumulated losses due to the impairment.

After initial recognition, the property is measured at the revaluation amount, which represents their fair value at the revaluation date less the subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis in order to ensure that the carrying amount does not differ significantly from the value that would have been achieved using fair value at the end of the reporting period.

Recording the effects of revaluation depends on whether the difference between the carrying amount of the asset and its fair value at the date of revaluation is positive or negative. Positive effects are recognized as an increase in the revaluation reserve and / or as income from changes in the value of fixed assets to the level of previously recognized expenses on the same basis for the same asset. Negative effects are recognized as a reduction in the previously formed revaluation reserve and / or as an expense based on changes in the value of fixed assets. The revaluation reserve arising on this basis is transferred in full to retained earnings upon derecognition of the property. The revaluation reserve can be transferred to retained earnings while the asset is used in the amount of the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset. The transfer of revaluation reserves to retained earnings is not made through the income statement.

When parts of the property or equipment have different useful lives, they are kept as separate items (main components) of the equipment.

Gains or losses arising from the disposal of property and equipment are determined as the difference between the value of their sale and their carrying amount and are recorded in other income or expenses.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(l) Property and equipment (continued)

(ii) Subsequent costs

Replacement cost for an item of property, plant and equipment is recognized as part of the carrying amount of that fixed asset if it is probable that future economic benefits associated with that component will accrue to the Group member and if the cost of the cost of that part can be reliably measured. The carrying amount of the replaced part is written off. Maintenance costs for property and equipment are recognized in the Profit and loss statement when they arise.

(iii) Depreciation

Depreciation is recognized in the Profit and loss statement in equal annual amounts over the estimated useful lives of a given item of real estate, plant and equipment, since this way best reflects the expected consumption of the useful economic value contained in the asset. Leased assets are depreciated during the lease period or useful life of the asset, depending on the period of time it is shorter.

The applied depreciation rates in the current and previous accounting period are:

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	5 - 10	10 - 20%
Investments in other fixed assets	4.58 - 20	5 – 21.83%
Leased fixed assets	1.1-14.11	6.70%-92.31%

The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.

Maintenance costs are recognized in the Profit and loss statement for the period in which they are incurred.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(lj) Intangible assets

Intangible assets are valued at cost less amortization and impairment losses.

Subsequent costs from investing in intangible assets can only be capitalized in the event of increased future economic benefits from the assets to which they relate. All other costs represent the expense of the period in which they were incurred.

Amortization is presented in the profit and loss statement in equal annual amounts during the estimated useful lives of the item of intangible assets, since it thus best reflects the expected consumption of the useful economic value contained in the asset. Estimated useful lives of non-material investments is 3 to 10 years, i.e. amortization rates range from 10.00% to 33.34%.

The method of amortization, useful life and residual value are estimated at the end of each reporting period and, when necessary, their correction is made.

(m) Investment property

Investment properties represent real estate held to earn rental income or capital appreciation for both purposes and not for sale in a regular course of business or for use in the production or purchase of goods or services or for administrative purposes.

Initial valuation of investment property is carried out at cost. The cost of the purchased investment property includes its purchase price and all expenses directly attributable to the acquisition of the asset.

After initial recognition, the parent bank subsequently measures investment property at fair value. Fair value is the price that would be charged to sell an asset or paid to transfer a liability in a regular transaction between market participants at the measurement date.

Gains or losses arising from changes in the fair value of investment property are recognized as income or expense in the period in which they arise.

In 2021, the Parent bank voluntary changed accounting policy for the subsequent valuation of investment property and instead of previously used cost method, the fair value method is now valid (Note 2.5).

(n) Impairment of non-financial assets

The carrying amount of non-financial assets is analysed at the end of each reporting period in order to determine whether there are impairment indicators. In case it is determined that there are certain indicators of impairment, the recoverable amount of the assets is determined. An impairment loss is recognized if the carrying amount of the asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is determined as a value that is greater than the asset's fair value and fair value. For the purposes of determining the use value, estimated future cash inflows from the asset are discounted to their present value, using a pre-tax discount rate, reflecting the current market estimate of the time value of money as well as asset-specific risks.

An impairment loss is recognized in the case where the carrying amount of an asset is greater than its recoverable amount. An impairment loss is recognized within the results of the period.

Impairment losses from previous periods are estimated at the end of each reporting period in order to determine whether loss reductions have occurred or that they no longer exist. An impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount of the asset. Impairment losses are reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, less amortization, in the event that there was no recognition of the impairment loss.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(o) Deposits, loans and subordinated liabilities

Deposits, debt securities, loans and subordinated liabilities are the main source of financing for the Group.

The Group classifies financial instruments as financial liabilities or as equity in accordance with the substance of the contractual terms for a specific instrument.

Deposits, debt securities, loans and subordinated liabilities are initially valued at fair value plus all direct transaction costs, while their subsequent valuation is carried at amortized cost using the effective interest rate method.

(p) Provisions

Provision is recognized when a Group expects, as a result of past events, to have a present legal or enforceable obligation that can be reliably identified and whose settlement is expected to result in an outflow of resources representing economic benefits to the Group. The provision is determined by discounting the expected future cash outflows using a pre-tax discount rate that reflects the current market estimate of the time value of money and, where appropriate, the risks specific to the obligation.

(r) Employee benefits

In accordance with regulations, members of the Group are obliged to pay liabilities to state funds to ensure the social security of employees. These obligations include employee contributions at the expense of the employer in amounts calculated according to the rates laid down by relevant legal regulations. Members of the Group are also obliged to suspend contributions from employees' gross salaries and to pay them on behalf of employees. Contributions made at the expense of the employer and contributions made at the expense of the employee shall be credited to the expense of the period

In accordance with the Labour Law, members of the Group are obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at December 31, 2021, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in Note 33.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(s) Financial guarantees

Financial guarantees are contracts that a Group member is obligated to make to their customers for losses incurred due to default of a particular debtor by default, and in accordance with the terms of the debt instrument.

Liabilities for financial guarantees are initially recognized at fair value, and the initial fair value is amortized over the term of the financial guarantee. The liability under the guarantee is subsequently measured in the amount that is greater than the amortized value and the present value of the expected future payment (when the payment on the basis of the guarantee is likely). Financial guarantees are recorded under off-balance sheet items.

(t) Capital and reserves

The Group's capital includes founding shares, future issuance shares, emission premium, reserves, fair value reserves, accumulated results and the result of the current year.

(u) Earnings per share

The Parent bank displays basic and diluted earnings per share for its own ordinary shares. The basic earnings per share is calculated by dividing the gain or loss attributable to the owners of ordinary shares of the Parent bank weighted average of the number of ordinary shares in circulation during the period.

The diluted earnings per share is calculated by dividing the adjusted gain or loss attributable to ordinary shareholders for the effects of preferential, convertible shares, weighted average of the number of ordinary shares in circulation during the period.

(v) Segment reporting

The business segment is part of the Group - a member of the Group, which independently deals with business activities from which revenues can be generated and incurred, including revenues and expenses arising from transactions with other members of the Group, whose business result is regularly controlled by the Parent bank's management (as the main operational decision maker), to make decisions about resource allocation by segments and evaluate their results.

In accordance with the International Financial Reporting Standard 8 - Business Segments, the Group also discloses information about the operation of operational segments, thus providing information users with additional information on revenues and expenditures arising from key business activities (Note 6.2).

When determining the operational segments, the following were used:

a) Different products and services that segments offer;
b) Separate Segment Management and
c) Structure of internal reporting.

4. RISK MANAGEMENT

The banking group recognized the risk management process as a key element of business management, since exposure to risks stems from all business activities, as an inseparable part of banking operations, managed through identification, measurement, evaluation, monitoring, control and mitigation, or the establishment of risk limits , as well as reporting in accordance with strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Group is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment. Given that both the parent Bank and its subsidiaries within the Komercijalna Banka Group became members of the NLB Group at the end of 2020, additional adjustments of the risk management system with the risk management system of the NLB Group will be made in the upcoming period.

The risk management process includes clearly defining and documenting the risk profile, as well as its alignment with the Group's preference for risk and risk tolerance, in accordance with adopted strategies and policies.

With Risk Management Strategy and Capital Management Strategy, the Group has set the following objectives within the framework of the risk management system: minimizing the negative effects on the financial result and capital, while respecting the defined risk tolerance framework, diversifying the risks to which the Group is exposed, maintaining the required level of capital adequacy, maintaining the participation NPL in total loans to acceptable level for the Group, the highest acceptable level of non-performing loans, maintenance of indicators of liquid assets coverage above the level and regulated by regulations and internal limits, the development of the Group's activities in accordance with the business strategy and market development in order to achieve competitive advantages. The objectives of risk management are in line with the Group's business plan.

Recognizing the changes in the regulations of the National Bank of Serbia and the need to further improve the risk management process, recommendations of the external auditor, as well as new situation caused by the COVID-19 pandemic, in 2021 the Group made appropriate changes to internal acts governing risk management.

Risk Management System

The risk management system is defined by the following acts:
- Risk Appetite Management Framework - Statement;
- Risk Management Strategy and Strategy and Capital Management Plan;
- Risk management policies;
- Risk management procedures;
- Methodologies for managing individual risks;
- Other acts.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The Group's risk appetite management framework - The statement defines the basic principles of the Bank's risk appetite management, as well as a set of indicators that best represent the Group's exposure to material risks (credit risk, liquidity risk, interest rate risk, foreign exchange risk, operational risk and capital adequacy). Appetite Risk Management Framework - The statement defines a set of limits and objectives for the listed risk exposure indicators. The Group's risk appetite is in line with NLB dd's risk appetite, and in line with the defined plan.

The risk management strategy defines the basic risks to which the Group is exposed or may be exposed, as well as the basic principles of identification, monitoring, measurement, control and management of these risks, as well as risk appetite. The strategy establishes a comprehensive and reliable risk management system, which is included in all activities of the Group and which ensures that the appetite and risk profile are always in line with the already identified risk appetite. The risk management system is proportional to the nature, scope and complexity of the Group 's operations, ie its risk profile.

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 Group, as well as the basic principles of risk management arising from exposures in dinars with a currency clause in foreign currency and exposures in foreign currency.

The key principles related to risk-taking, which are an integral part of business decision-making, are expressed using the following criteria:

- identifying life and business activities that are not acceptable to the Group, in terms of risks taken,
- determining the maximum amount of risk taken,
- monitoring the profitability of individual transactions in relation to the risks taken.

The Group's risk management strategy is based on:

- strategic goals defined in the Business Strategy of Komercijalna banka AD Belgrade,
- guidelines on risk appetite defined in the risk appetite of Komercijalna banka AD Belgrade,
- regular annual review of strategic goals, business planning and capital planning processes,
- the process of internal capital adequacy assessment (ICAAP) and internal liquidity assessment (ILAAP),
- activities and measures in case of activation of the Recovery Plan,
- other internal stress tests and risk analysis,
- regulatory and internal reports,
- Risk Preference and Risk Management Strategy at the level of the NLB Group.

The Banking Group is guided by the main principles of risk management:

- takes into account the basic concept of risk appetite and the limits defined in the Group's risk appetite;
- includes risk analysis in the decision-making process at the strategic and operational levels in order to prevent risks posed by variable exposures with potentially negative outcomes;
- applies diversification to avoid concentration at the portfolio level;
- includes and optimally uses capital and manages its allocation through business segments;
- creates an adequately balanced (adjusted) price to the weighted risk;
- ensures general harmonization of operations through internal acts / documents;
- provides an adequate internal control system based on the "three lines of defence" model.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The Banking Group has identified the basic principles of risk management in order to fulfil its long-term goals:

- taking over and managing risks, the implementation of the Group's business strategy and plans has been adjusted;
- Acquisition and risk management is based on a risk management system that is in line with legal regulations in the Republic of Serbia, standards in the NLB Group and good business practice in this area;
- Risk taking and management is one of the key management functions in the Group. This function is integrated into all business activities of the Group, so that the phases of identification, measurement and monitoring of risks, on the one hand, and the adoption and management of the principles of risk, mutual relations, independence of the state, independence. ;
- Risk taking and management is based on risk management strategy and policy. It is a documented process with clearly defined goals, activities, powers and responsibilities;
- Risk taking and management is determined according to established legal and internally prescribed restrictions by risk categories, with clearly defined procedures in case of exceeding the limit;
- Assumption and management of risks implies the establishment and implementation of an appropriate system of internal control. These controls are a set of processes and procedures that include continuous verification, reporting, and changes to develop or improve a risk management system.

Within the management of NPE (exposure to default), depending on the assessment of the potential repayment capacity and business viability of clients, the Group has the following options:

- agreement with the client on voluntary (out-of-court and judicial) payment of obligations;
- centralized collection before the court by telephone;
- debt restructuring without discounts;
- discount debt restructuring;
- debt collection (liquidation of collateral - sale of real estate, movable property, securities, shares, receivables, etc.);
- taking over adequate assets (especially real estate - a solution based on the foundations of special purpose entities, aimed at comprehensive management of mortgaged real estate);
- write-off of remaining receivables in case all legal possibilities have been exhausted;
- sale of receivables, if possible, in a package;
- active management of issued guarantees for bankrupt construction companies in cooperation with contractual partners;
- application of other measures to achieve maximum debt repayment.

Principles of risk management arising from dinar exposures with a foreign currency clause and foreign currency exposures include:

- Foreign exchange exposure management group by setting limits,
- As a long-term goal, the Group exists to reduce the share of foreign exchange exposures,
- The Group sets the limit in a way that optimizes the risk that may arise from the level of foreign exchange exposure and the implementation of business strategy,
- Risk assessment of foreign exchange exposure is included in the lending process and clients are presented with the risks that may arise due to changes in foreign exchange rates as well as proposed measures to reduce risk,
- In assessing the creditworthiness of debtors, the Group takes into account the risk of changes in exchange rates in accordance with defined rules,
- The level of risk arising from foreign exchange exposure is subject to regular reporting to the competent committees of the Group,
- The Group calculates the internal capital requirement for foreign exchange exposures.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

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

- The way of organizing the banking risk management process of the Banking Group and the 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 banking group and the methodology for identifying and measuring, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the banking Group 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 banking group;
- Principles of functioning of the internal control system;
- The framework and frequency of stress testing, as well as handling in cases of adverse stress test results.

Risk Management Procedures the Group details the risk management process and the responsibilities and responsibilities of all organizational parts of the parent Bank and members of the banking group in the risk management system.

The individual methodologies of the Group members set out in more detail the methods and approaches used in the risk management system.

Jurisdictions

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

The *Executive Board* is responsible and accountable for the implementation of the risk management strategy and strategy and the capital management strategy by 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 analyses 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 Group's exposure to a related parties and report to Board of Directors about mentioned.

The *Audit Committee (Business Monitoring Committee)* is responsible and accountable for the analysis and supervision of the application and adequate implementation of the adopted strategies and policies for risk management and internal control systems of the parent Bank and the Group. At least once a month, the Board of Directors reports on its activities and irregularities and proposes the way in which they will be removed, proposes improvement of policies and procedures for risk management and implementation of the internal control system.

4. RISK MANAGEMENT (continued)

Jurisdictions (continued)

The *Assets and Liabilities Management Committee* is competent and responsible for monitoring the exposure to risks arising from the structure of balance sheet receivables, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk. Each member of the Group has an Asset and Liability Management Committee.

The *Credit Committee* decides on credit requirements within the framework of the Bank's founding regulations, analyses the exposure of the parent Bank to credit, interest and currency risk, analyses the loan portfolio, and also proposes measures to the Executive Board of the parent Bank. Each member of the Group has a credit committee which decides within its competencies and limits.

The *Risk management function* of the parent Bank defines and proposes to adopt the strategy, policies, procedures and methodology of risk management, identifies, measures, mitigates, monitors and controls and reports on the risks to which the parent Bank and the Group are 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 banking group.

The *Bank's Asset Management Division* is responsible for managing assets and liquidity, as well as managing Assets and Liabilities at the Group level. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The *Internal audit function* is responsible for continuously conducting an independent evaluation of the risk management system at the Group level, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal audit function reports to Audit Committee and Board of Director about its findings and recommendations. .

The *Compliance function* is obliged to identify and assess the risks of compliance of the operations of the parent Bank, as well as the Group member, propose risk management plans, and reports to Executive Board and Board for monitoring of operations of the Parent Bank, at least annually.

Risk management process

At the banking Group level, the risks identified in the business are assessed regularly. Measurement implies the application of qualitative and quantitative methods and measurement models that allow for the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, their significance is determined based on a comprehensive risk assessment that is characteristic of particular business, products, activities and processes of the banking Group.

Risk mitigation involves diversification, transfer, reduction and / or risk avoidance, in line with risk profile, risk pricing and risk tolerance for the banking group.

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, which depend on the business strategy and market environment, as well as on the level of risk that the Group is ready to accept.

The Group has established a regular risk and risk profile reporting system that enables relevant employees at all levels in the Group to provide timely, accurate and sufficiently detailed information needed to make business decisions and efficient risk management, that is, secure and stable operations.

4. RISK MANAGEMENT (continued)

Types of risk

The Banking Group is particularly exposed in the business to the following types of risks: credit and related risks, liquidity risk, market risk, operational risk, investment risk, concentration risk, exposure and country risk, as well as all other risks that may arise in the ordinary course of business member of the Group.

4.1. Credit risk

Credit risk is the risk of the possibility of adverse effects on the Group's financial result and capital due to non-performance of the debtor's obligations towards members of the Group.

During 2020 and 2021, a special challenge for credit risk management is posed by the conditions caused by the COVID-19 pandemic, which are completely different from the previous business circumstances that the industry and financial sectors have faced.

Members of the Group have defined criteria for granting loans, changing conditions, extending the deadline and restructuring the receivables, which are prescribed by procedures and methodologies for placement approval and risk management.

Prior to the approval of placements, the Group members assess the creditworthiness of the debtor as the primary source of repayment of loans based on internally defined criteria and the collateral offered as a secondary source of collection. Based on the identified and measured level of credit risk (assessment of the financial condition and creditworthiness of the debtor, as well as the value and legal security of credit protection and other relevant factors) and independent risk assessment, competent persons, committees and bodies of the Group members, make a decision on approval / changes of placements, in accordance with the defined decision system.

The Group defined the decision on the exposure to credit risk through the decision-making system, depending on the type of clients and the level of exposure. Credit decision makers are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors.

When making decisions, the principle of dual control of the so-called. A "four eyes principle", which ensures that there is always a proposed party and a party that approves a particular placement.

Since both the parent Bank and its subsidiaries within the Komercijalna Banka Group became members of the NLB Group in 2021, the process of harmonizing the internal rating system with the corresponding system at the level of the NLB Group has begun, which will be subject to further improvements in the next period..

The organizational model of the Group's credit risk management system 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, competencies and responsibilities. Members of the Group have established an adequate information system that includes full information of persons involved in the credit risk management system.

In accordance with the scope, type and complexity of the operations it performs, the Group has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process

The acceptable level of exposure to the Group's credit risk is in line with the defined risk management strategy and depends on the structure of the Group's portfolio, which limits the potential impact of negative effects on the financial result and capital adequacy.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The basic principles of credit risk management are:

- Credit risk management at the level of individual placements and at the level of the Group's entire portfolio;
- Maintaining the level of credit risk that minimizes the negative impact on the financial result and equity;
- Ranking of placements according to their risk;
- Performance in accordance with good practices for approving loans;
- Providing adequate controls for credit risk management.

With the aim of credit risk management, the Group's members strive to deal with clients with good creditworthiness and obtain appropriate payment security instruments. Members of the Group assess the creditworthiness of each client at the time of filing the application and monitor debtors, placements and collaterals in order to be able to undertake appropriate activities for the purpose of collecting receivables.

All members of the Group perform quantitative and / or qualitative measurement, i.e. an assessment of the identified credit risk. The process of measuring credit risk is based on measuring the risk level of individual placements based on the internal rating system.

A rating system is an instrument for making individual decisions and assessing the level of risk of individual placements. In addition, the rating system serves to assess the level of risk of the total portfolio, and is also used in the process of impairment of placements in order to rank the level of risk and to show the real value of the receivables. Internal rating system is subject to regular audit and improvement.

In order to adequately and efficiently manage the risks they are exposed to in their operations, the Parent bank and Group members also respect the principles prescribed by the regulations of their Central Banks, which require the classification of each placements on the basis of the prescribed framework and the calculation of the reserve for estimated losses. Since both the parent Bank and its subsidiaries within the Komercijalna Banka Group became members of the NLB Group in 2021, the process of harmonizing the internal rating system with the corresponding system at the level of the NLB Group has begun, which will be subject to further improvements in the next period.

Credit risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile, or maintaining an acceptable level of quality of the Group's loan portfolio.

The basic techniques of credit risk mitigation are:

- Exposure Limits - concentration risk,
- Diversification of investments,
- Security instruments.

Exposure limits based on a single debtor are based on an assessment of the debtor's creditworthiness, and exposure limits at the portfolio level are focused on the concentration limit of exposure in the portfolio. Members of the Group continuously control the movement of credit risk within a defined risk profile.

The concentration risk includes: large exposures (exposure to one person or group of related persons and persons associated with the Group), exposure groups with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, credit protection instruments.

The Group monitors exposure to defined limits with the same or similar risk factors and, depending on the general economic trends, trends in particular activities and geographical areas, the values set forth in the Business Plan of the Group members, regularly reviews the defined limits and proposes redefinition of these in the event of a change in risk factors.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

By the Decision on risk concentration management based on the exposure of the bank to certain types of 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 retail sector of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

Monitoring of quality of placements at the individual debtor level is primarily based on providing up-to-date information on financial condition and creditworthiness of the debtor and the market value of collateral, while monitoring credit risk at the portfolio level is done by identifying changes at the level of client groups of a certain level of risk, required reserves for expected and unexpected losses, in order to determine and manage the condition and quality of assets.

Credit risk control implies the process of continuous monitoring of operations with a defined system of limits, especially when exposure to credit risk tends to the upper limit of the defined risk profile, especially when introducing new business products and activities.

In order to protect against the risk of non-fulfilment of liabilities in dealing with clients, the Group members take the following measures for regulating receivables: extension of the deadline, restructuring, settlement, takeover of collateral for the collection of receivables, conclusion of a contract with the interested third party, initiation of court proceedings and other measures.

If the measures taken to regulate the placements, i.e. the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the receivables in full, a proposal for the permanent write-off of the remaining receivables or transfer from the balance sheet to the off-balance sheet is initiated.

Group, besides balance sheet exposure, also has an off-balance sheet exposure (payable and performance guarantees, guarantees, letters of credit) on the basis of which it has a potential obligation to make payments on behalf of third parties. For off-balance sheet exposure, the Group members use the same control processes and procedures that are used for credit risk, which arises on the basis of balance sheet exposures .

The credit risk reporting includes the internal and external reporting system, which is implemented according to the established dynamics in accordance with the defined reporting system:

- Members of the Group report to the Parent bank on a monthly basis;
- The Parent bank reports on a consolidated basis, semi-annually and annually.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

IFRS 9 Financial instruments

The Group continuously applies IFRS 9. In accordance with IFRS 9, the financial assets can be classified and measured as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI[1] criterion;
- 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).

Since the Parent Bank and its subsidiaries are part of the Komercjalna Banka Group became a member of the NLB Group at the end of the year, during 2021 the process of harmonizing the impairment methodology with the established rules at the level of the banking group began. In 2021, the values of hair cut for individual impairment of placements were harmonized, the threshold of material significance for impairment of NPE clients of natural persons was changed (increased from 2.5 million dinars to 50,000 euros), the calculation of impairment for placements secured by the guarantee of the Republic of Serbia was changed, the PD for the calculation of the impairment of securities of the Republic of Serbia was changed and the formula for the application of LGD was changed. Also, the use of monthly PD instead of annual, using exposure to monthly amortization plans, included the impact of macroeconomic variables on the value of LGD secured and LGD unsecured, tested the value of hair cut with the historical realization of Bank collateral and adjusted hair cut these where there were deviations.

The Group's business model – part related to corporate and retail lending, and corporate bonds 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 Group 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 by 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 measured at fair value through other comprehensive income.

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

Identification of problematic and restructured receivables

Members of the Group monitor the quality of the portfolio based on identifying and analysing early warning signals from clients. Warning signals are monitored on a regular basis and on the basis of their analysis, clients are classified as Standard, Potentially risky (Watch List) and NPL clients (clients with problematic receivables).

In accordance with the application of IFRS 9, starting from January 1, 2018, The Group also introduced impairment stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients ranked as stage 1, clients identifying credit risk increase (Watch List clients, days past due from 31 days to 90 days) are ranked as stage 2, and NPL clients rank as stage 3. Impairment allowances for Stage 1 and Stage 2 clients are calculated on collective basis, while for Stage 3 clients, with the fulfilment of the criteria of material significance, impairment is calculated on individual basis. NPL clients at stage 3, with less material exposure, are impaired on a group basis, while respecting the requirements of IFRS 9 for at least two collection scenarios.

[1] Solely Payments of Principal and Interest (SPPI)

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Additionally, due to the newly-formed situation caused by the COVID-19 pandemic, for clients classified as Stage 1 and 2, an additional protective layer of impairment has been introduced, with an increase in the number of clients classified as Stage 2, as a result of the analysis of significance of the increase in credit risk of individual clients in current circumstances.

Restructured unproblematic clients are classified as potentially risky clients, that is, to Stage 2 category, while restructured problematic are classified as problematic clients, and are categorized into Stage 3 .

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic receivables without prior identification of clients as potentially risky and without implementing measures to prevent the occurrence of risky placements, i.e. mitigating and reducing credit risk through the implementation of an adequate strategy and action plans. Potentially risky clients are more closely monitored than Standard clients, and if further credit risk is identified, clients are reclassified to category of problematic receivables.

Problematic receivables include all receivables that have more than 90 past due days, for any material liability to the Bank, its parent or subordinated companies, receivables in which it is estimated on the basis of the financial condition that the debtor will not be able to settle its obligations in full without taking into account the possibility of the realization of credit protection instruments (regardless of whether they are late in settling liabilities), receivables for which the amount of the impairment was determined on an individual basis. Problems are also deemed to arise from: the cessation of the recording of interest income, fees and charges in the income statement, specific adjustments for credit risk that are calculated due to significant deterioration of credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, restructuring receivables made due to the financial difficulties of the debtor, as well as filing a motion for initiating bankruptcy proceedings against the debtor. In the last quarter of 2021, the Bank introduced two new criteria for individuals (deceased and lost their jobs) default status (stage 3 and NPL status), for placements that are not over 90 days late. Problematic receivables are all receivables from the debtor, if one receivable is classified as problematic receivable.

Restructuring of receivable is the approval, due to the financial difficulties of the debtor, the concessions in connection with the repayment of individual receivable that would not be approved to the debtor if he were not in such difficulties, irrespective of whether there are any due liabilities, whether the receivable was impaired and whether it was in the status of default. Restructuring is carried out in one of the following ways: by changing the conditions under which the receivable was originated, especially if the subsequent contractual terms of repayment are more favourable than originally agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. Such circumstances are often called in practice ‘forbearance’. In addition, the category of restructured receivables also includes receivables in which:

- changes in the contractual conditions for repayment of problematic receivables or which, in the absence of the above mentioned changes, would be classified as problematic receivables,
- a change in the contractual conditions for the repayment of receivables leading to total or partial write-off in a material amount,
- the Group members activated the contractual restructuring clauses on the basis of which the terms of repayment change due to occurrence of certain events (embedded clauses) against the debtor from which the receivable has already been classified into a group of problematic receivables or would have been so classified if those clauses were not activated,

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

- if the debtor, at the same time as the new receivable was approved (or in the short period before or after that approval), paid on the basis of another receivable of the Group (or other legal entity under which the receivable was transferred to that debtor), which has been classified or fulfilled conditions to be classified in a group of problematic ones or, in the absence of a new receivable, would be classified in the said group, that is, fulfil those conditions.

In accordance with the IFRS 9 requirements, any restructuring of receivables due to financial difficulties is considered as a modified or altered financial asset.

Modifications that result in the derecognition of the old financial asset and the initial recognition of the new one, which were motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as "POCI" purchased or originated credit-impaired, initially valued at fair value. At the time of initial recognition, they have no impairment, but it is necessary to include the expected credit losses over the life of the asset in the calculation of the effective interest rate.

Consequently, the Group includes initial expected credit losses in the assessment of cash flows when calculating the credit-adjusted effective interest rate of a financial asset that is deemed to have been impaired at the time of initial recognition. Also, for the purpose of calculating impairment, these assets will remain at stage 3 for the entire period of time.

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.

Derecognition leads to a permanent gain or loss recognized in the income statement and is equal to the difference between the amortized cost of an old financial asset and the fair value of a new financial asset deducted for the amount of expected credit losses recognized as impairment on a new financial asset.

In each change of credit conditions, in placements that are not in the status of problematic (PL) clients, as with bad (NPL) clients, the group calculates 10% test in order to determine whether it is a significant or less significant modification.

The Group members in their system logs every modification of the asset, regardless of whether it is a less or more significant modification, and whether the modification is caused by the change of market conditions in good (PL) clients or caused by problems in the (NPL) clients.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Members of the Group regularly follow the measures taken to restructure risky placements and control the timeliness of undertaking these measures. Monitoring of the measures taken, ie realization of them, such as, for example, settlement of matured liabilities is done on a daily basis. The monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of the provision of monitoring the overall performance of strategies towards debtors are the key points of the mentioned monitoring.

Restructured receivable classified in the group of problematic receivable of a member of the Group after one year from the date of its restructuring are classified into a group of receivables that are not considered problematic if the following conditions are met:

- the amount of impairment for restructured receivable has not been determined and the status of default has not occurred;
- in the last 12 months, payments were made in due time or with a delay not exceeding 30 days, in accordance with the changed terms of repayment;
- Based on the analysis of the financial condition, ie the creditworthiness of the borrower, it was estimated that the borrower will be able to settle the liabilities in full in accordance with the changed terms of repayment.

Risk of asset quality change

During 2021, the process of harmonizing the internal rating system with the corresponding system at the level of the NLB Group began, which will be subject to additional improvements in the coming period. The quality of the Group's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the debtor. The rating scale contains five risk categories, divided into 19 sub-categories. Different exposures to the same debtor define the same rating category, regardless of the specificity of the different types of loans.

The Group uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities. A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Group (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitored (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4D, 4DD, and 5). Risk Category 4 is divided into three 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 Group protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Risk of asset quality change – impairment of assets

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the Group's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the potential liabilities.

Impairment of placements and provisions are made only when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, difficulties in the cash flows of the debtor (financial difficulties), decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that, realistically, the loan will be settled from these assets.

The Group members assess the impairment of receivables on a group and on a single basis.

Individual and Group Assessment at Stage 3

Group members estimate impairment allowance for each individually significant placement with default status (risky placement, under a risk category 4D, 4DD and 5 according to the internal rating system), i.e. placements that are classified in stage 3 in accordance with IFRS 9. For this purpose, financial position of the loan beneficiary is taken into account, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collaterals and the certainty of fulfilment of the client's obligations towards the members of the Group, a new assessment of the impairment of the placements is made.

The materiality threshold of a member of the Group is determined on the basis of an analysis of the value structure of the portfolio by types of clients and products.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Individual assessment

Objective evidence that indicates the need for impairment of placements is considered to be:

- 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-fulfilment of other contractual provisions;
- when the members of the Group , due to the financial difficulties of the borrower, substantially change the terms of repayment of receivables in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) etc.

Evidence can be documented by analysis in the Watch process, information on the increased level of risk of the debtor.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the 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 assets and the present value of the estimated future cash flows, whereby the Group recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Group on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

For a group of smaller material receivables that are located at 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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 estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the corporate sector and by rating groups by type of placements in the retail sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incurred credit loss in accordance with IAS 39, the principle of future expected credit loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of 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 Group 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 Group calculates the impairment charge based on the expected credit losses for the entire life of the instrument.

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

All financial instruments in which significant increase in credit risk has been occured are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the entire life of the instrument. In addition to qualitative and quantitative criteria for the classification to Stage 2, due to the conditions caused by the COVID-19 pandemic, during 2021 the Group has reclassified a significant number of clients from industries which are affected by the COVID-19 pandemic the most (catering, tourism, transport ...) to Stage 2 for the purpose of preventive action and a realistic view of impairment, given the possible negative consequences of the COVID-19 pandemic on the business of clients from these activities.. This was conducted through an structural analysis of portfolio by activities, as well as by the analysis of individual clients of legal entities.

All clients with exposure above the defined level, who operate in activities that are estimated to be most exposed to the negative effects of the COVID-19 pandemic, were analyzed. All clients estimated to be, or could be, exposed to the effects of the COVID-19 pandemic, even though they do not have previously defined criteria for transfer to stage 2 in accordance with IFRS 9, are immediately classified in stage 2. Also, an analysis of clients from the segment of the population who are employed in the non-governmental and non-public sector and who are not pensioners is performed. If the absence of earnings has been identified for the mentioned clients, or the same has been reduced by the amount above the defined level, the transfer of such clients to stage 2 has been performed. Consequently, impairment for the entire loan period has been calculated for the mentioned clients.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment (continued)

The Group 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 2021, Group members have improved the Methodology for Assessing Impairment of Balance Sheet Assets and Probable Loss on Off-Balance Sheet Items in the part of possibility of calculating and allocating additional protection layer of impairment, or elaboration and application of several possible scenarios, in order to adequately include the estimated effects of COVID-19 virus pandemic on credit risk impairment.

The Group calculates the impairment losses on debt securities measured at fair value through other comprehensive income (FVOCI), as the accumulated impairment loss, which also affects the income statement. However, expected credit losses do not reduce the amount of gross financial assets in the balance sheet.

For retail and corporate sector, the Group 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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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 Group 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-fulfilment 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 fulfil obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Group is still exposed. Based on historical data, the group 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 Group 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.

For the purpose of including the forward looking component, the Group includes three scenarios of the movement of macroeconomic variables (optimistic, realistic and pessimistic) when calculating the Beta factor value, after which the weighting is performed with the probability of the anticipated realization of the above scenarios, in order to obtain the final Beta Factor that contains all three scenarios (optimistic, realistic, pessimistic).

Macroeconomic factors used in the impairment process

In defining macroeconomic assumptions, the Bank uses a set of different relevant external sources, as well as internal prices. In order to determine the share of each of the scenarios for the purposes of calculating impairment, the positive and negative trends in the previous period (quarterly) of each of the variants for which the status is important to meet were considered.

In 2021, the recovery of the economy is noticeable. Real growth of gross domestic product, according to preliminary estimates of the Republic Bureau of Statistics in 2021, amounted to 7.5%. Observed by activities, compared to the previous year, the highest real growth and significant recovery was recorded in the sectors most affected in 2020 due to the Covid virus pandemic:

• tourist nights (29.7% compared to minus 38.4% in 2020)
• wholesale (22.0% compared to minus 4.9% in 2020)
• traffic (39.9% compared to minus 36.0% in 2020)
• catering (74.2% compared to minus 25.8% in 2020)

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Macroeconomic factors used in the impairment process (continued)

Industrial production in the Republic of Serbia in 2021 is higher by 6.3% compared to 2020, with:

- growth in 22 areas (participation in the structure of industrial production - 89%),
- decline in 7 areas (participation in the structure of industrial production - 11%).

Observed by sectors, the biggest impact on the increase in industrial production in 2021, compared to 2020, had the processing industry - growth of 5.5%, thanks to growth in the branches: Production of coke and petroleum products, Manufacture of other transport equipment, Manufacture of electrical equipment and Manufacture of other machinery and equipment nec. In addition to the mentioned branches of the processing industry, the largest contribution to the growth of total industrial production was made in the mining sector - a growth of 27.6% in the branch of metal ore exploitation.

Based on the projection of the National Bank of Serbia, economic activity is expected to grow by 4-5% in 2022, according to the latest available data, which will be significantly driven by economic recovery ie. private sector investment, government investment, but also private consumption growth, which is in line with the projections of real GDP growth used by the Bank.

According to the data of the National Employment Service, the number of unemployed persons during the first two quarters of 2021 increased compared to the same period last year, unlike the second half of the year when unemployment began to decline. In December 2021, compared to December 2020, the number of unemployed persons decreased by 13,783, or 2.8%. The unemployment rate, according to the Labor Force Survey, was 10.5% in the third quarter of 2021, which is 0.7 percentage points. more compared to the same period last year. During 2022, a recovery in the labor market is expected.

Year-on-year inflation in December 2021, compared to the same month last year, was 7.9%, while average annual inflation was 4%. Stronger growth in year-on-year inflation during 2021 is the result of the predominantly low base from the previous year and significant growth in oil prices due to the recovery from the pandemic, but also in part due to rising prices of primary agricultural products. By the end of 2022, it is expected to return to the target limits.

BELIBOR (BELIBOR - Belgrade Interbank Offered Rate) is the reference interest rate determined on the Panel of Banks, on the Serbian interbank market. The National Bank of Serbia did not change the reference interest rate during 2021. On the other hand, the National Bank of Serbia reduces the degree of monetary policy expansion from October 2021, increasing the average weighted interest rates on reverse repo auctions, which withdraw excess liquidity from the banking system in a week, as well as the percentage of dinar liquidity surplus.

Restrictive monetary policy has had an impact on the movement of the BELIBOR rate, which has been showing continuous growth since October. Further tightening of monetary conditions is expected, ie continued growth of BELIBOR rates.

The EURIBOR (EURIBOR - Euro Interbank Offered Rate) rate in 2021 recorded significantly lower volatility compared to 2020. In 2021, the European Central Bank did not change the reference interest rate (0.00%), as well as the rates on credit (0.25%) and deposit facilities (-0.50%). The future movement of EURIBOR largely depends on the policy of the European Central Bank in the coming period, ie the extent to which an expansionary monetary policy will be pursued.

In December 2021, the European Bank decided to complete the Central Bond Purchase Program (PEPP) by the end of March 2022, with the reinvestment period continuing at least until the end of 2024. from the zone of negative rates is not expected before 2024.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Macroeconomic factors used in the impairment process (continued)

Macroeconomic factors are shown in detail, which showed statistically based relationships with default rates, and consequently with expected credit losses with projected values used in each of the three scenarios (realistic, pessimistic and optimistic).

Projection of macroeconomic factors as at December 31, 2021

Macroeconomic factor	ECL scenario	2022	2023	2024
Industrial production index				
	Optimistic scenario	110	112	113
	Realistic scenario	106	108	109
	Pessimistic scenario	98	100	101
Six-month Euribor (%)				
	Optimistic scenario	(0.25)	(0.24)	(0.23)
	Realistic scenario	(0.15)	(0.14)	(0.13)
	Pessimistic scenario	0.06	0.07	0.08
Quarterly Belibor (%)				
	Optimistic scenario	0.69	0.84	0.99
	Realistic scenario	1.73	1.88	2.03
	Pessimistic scenario	3.80	3.95	4.10
Number of unemployed persons (in thousands)				
	Optimistic scenario	463	442	421
	Realistic scenario	530	509	489
	Pessimistic scenario	665	644	623

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Projection of macroeconomic factors as at 31 December 2021

Macroeconomic factor	ECL scenario	2022	2023	2024
Gross domestic product (%)				
	Optimistic scenario	5.6	5.9	5.9
	Realistic scenario	4.7	4.5	3.9
	Pessimistic scenario	3.0	1.9	1.0
Year-on-year Inflation (%)				
	Optimistic scenario	3.6	3.7	4.0
	Realistic scenario	2.7	2.6	2.6
	Pessimistic scenario	1.5	1.0	0.6
Unemployment rate (%)				
	Optimistic scenario	9.4	6.8	5.1
	Realistic scenario	9.5	7.4	6.0
	Pessimistic scenario	9.9	8.5	8.1

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Calculation of credit risk impairment for stages 1 and 2

To calculate impairment for Stage 1, the Group uses one-year PDs recalculated on a monthly basis 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 Group 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 which come down to a monthly level. 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, i.e. the probability of default for the entire life of the financial instrument.

The values of the PD parameter are updated once a year on May 31 and more often if necessary

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Calculation of credit risk impairment for stages 1 and 2 (continued)

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 Group, 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 Group 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 Group takes into account all internally available collaterals where there is an estimate of the probability of collectability.

Starting from December 31, 2021, in the calculation of LGD unsecured and LGD secured, the Bank included the influence of macroeconomic factors in the next three years, taking into account three scenarios (optimistic, realistic and pessimistic).

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 Group. 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 Group uses a different method of calculating impairment. The Group 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 of financial instruments of the state, its bodies, central banks and financial institutions, it relies on defined estimates based on estimates by external rating agencies. 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Calculation of credit risk impairment for stages 1 and 2 (continued)

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.

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liability and the borrower is classified at stage 3. Also, for stages 1 and 2, the Group 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 Group reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Group 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 Group uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Group's members.

For unused commitments for which the Group has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the Group 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 (collateral)

In order to protect against exposure to credit risk, the most common practice that the Group members use, in addition to regular monitoring of clients' operations, is to obtain security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment of the other counterparty.

As standard security instruments, the Group members provide contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, other collaterals can be contracted:

- For commercial loans or corporate loans and loans for small businesses - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For retail loans - mortgages on real estate, deposits, guarantees of a solidary debtor, insurance of the National Corporation for securing housing loans at the parent Bank, and others;
- For borrowed securities and repurchase agreements - money or securities.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Means of protection against credit risk (collateral) (continued)

When assessing real estate or mortgages on movable property, members of the Group require a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Group, and the policies are vinculated for the benefit of the Group.

In order to protect against the change in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Group protects against potential losses due to inability to collect collateral.

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. Haircut brings down the estimated market value of each collateral instrument to the expected value that will be collected by its realization in the future, taking into account the volatility of market value, the possibility of realization and cash outflows based on activation and sales costs (court fees, tax costs that fall under the burden of the seller, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

Members of the Group pay attention to the regular valuation of collaterals. For non-risk placements (standard clients) - stage 1 and clients on the Watch list - stage 2, mortgages on residential and business properties are assessed at least once in three years by an authorized appraiser. For risky placements (NPE) - stage 3, mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

Regular monitoring of the value of real estate implies checking the value of the real estate based on available data and information, comparing the values of the real estate values with the values of the value on the market of the member countries of the Group (realized sales, supply and demand) by the regions specified in the collateral catalogue, using the statistical model, etc. For all business real estate, the Group conducts a check of value at least once a year, and for residential and other real estate at least once in three years.

The value of collateral and the trend of movement is monitored and updated by the members of the Group in order to minimize the potential risk of unrealistic estimation and, if necessary, may require additional collateral in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

The total exposure to credit risk as at December 31, 2021 and 2020 is shown 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).

Total exposure to credit risk before collateral and other improvements

Total exposure to credit risk

In thousands of RSD
Year ended December 31,

	2021		2020	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**509,802,624**	**489,468,223**	**525,971,325**	**500,295,540**
Cash and balances with the central bank	82,055,481	82,055,481	86,892,070	86,892,070
Loans and advances to banks and other financial institutions	29,151,602	29,130,701	18,869,773	18,865,483
Loans and receivables from customers	218,173,938	209,044,943	231,621,844	219,433,627
Financial assets (securities and derivatives)	149,752,261	149,744,019	158,442,869	158,438,656
Other assets	6,586,667	5,433,093	9,806,720	6,806,000
Assets	24,082,675	14,059,986	20,338,049	9,859,704
II. Off-balance sheet items	**61,730,331**	**61,521,512**	**44,071,806**	**43,803,018**
Payable guarantees	7,400,757	7,331,132	5,088,108	5,008,735
Performance guarantees	10,882,641	10,832,350	7,131,239	7,057,496
Irrevocable liabilities	43,413,347	43,344,379	31,625,243	31,552,723
Other	33,586	13,652	227,216	184,064
Total (I+II)	**571,532,955**	**550,989,735**	**570,043,131**	**544,098,558**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in loans and receivables to customers by level of risk during 2021

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
As of December 31, 2020	**171,917,691**	**11,095,822**	**17,676,694**	**200,690,207**
New receivables	63,499,170	533,857	237,002	64,270,029
Decrease/collection of receivables	(22,871,762)	(1,068,984)	(5,511,388)	(29,452,134)
Transfer to stage 1	-	(5,942,875)	(210,211)	(6,153,086)
Transfer to stage 2	(2,305,893)	-	(488,829)	(2,794,722)
Transfer to stage 3	(958,066)	(582,465)	-	(1,540,531)
Transfer from other stages	6,153,086	2,794,722	1,540,531	10,488,339
Other changes	(15,487,692)	(416,495)	(1,429,977)	(17,334,164)
As of December 31, 2021	**199,946,534**	**6,413,582**	**11,813,822**	**218,173,938**

Changes in impairment allowance of loans and receivables to customers by level of risk during 2021

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
31.12.2020	**802,035**	**212,915**	**10,379,168**	**11,394,118**
New receivables	626,347	15,305	157,605	799,257
Decrease/collection of receivables	(118,193)	(36,513)	(4,449,371)	(4,604,077)
Transfer to stage 1	-	(83,090)	(86,228)	(169,318)
Transfer to stage 2	(19,260)	-	(40,619)	(59,879)
Transfer to stage 3	(5,459)	(19,060)	-	(24,519)
Transfer from other stages	169,319	59,879	24,519	253,717
Other changes	131,332	146,429	1,261,935	1,539,696
As of December 31, 2021	**1,586,121**	**295,865**	**7,247,009**	**9,128,995**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

During 2021, transitions of exposures by Stages are consequence of regular business transactions:

- transition to Stage 1 from Stage 2 and 3 is a consequence of the improvement of performance and financial indicators of business clients (transition from level 2 to 1), as well as the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1, is mostly due to the deterioration of business with individual clients in the corporate sector changes in the methodology in the area of identifying clients for the Watch list within the harmonization process with the NLB Group, as well as the process of harmonization with the NLB Group in the part of changing the NLB rating for 3 subcategories from the moment of approval, ie from March 31, 2021 when the Bank first introduced the NLB rating;
- Transition to Stage 3 from Stage 1 and 2 is a consequence of increased risk of clients, mostly in the micro segment, agriculture and individuals, as well as the application of continuous arrears and NLB rating scale, where clients who receive grades D, DF and E enter stage 3. Reduction of receivables in stage 3, mostly due to the transfer of 100% of impaired receivables to off-balance sheet records, as well as the regulation of risky receivables (collection of collateral and regular business of clients). The mentioned transition from stage 1 and 2 to stage 3 was accompanied by the movement of value adjustment, which significantly increased after entering stage 3. During the year, receivables from stage 1 were in stage 2 before moving to stage 3.
- The increase in cost of risk in other changes in stage 1, and stage 2, mostly refers to the change of the Methodology in accordance with the harmonization process with NLB Group, in the part of PD calculation and new values of Beta factor. In addition to the above, the increase of cost of risk in Stage 2 also affected the withdrawal of previously approved placements by Stage 2 clients.
- The increase in cost of risk in other changes in stage 3 is a consequence of the change in methodology in the part of the value of hair cut for collateral, which was increased in accordance with the harmonization process with NLB Group, as well as the increase in cost of risk that occurred after the client's transition from stage 1 ,stage 2 and stage 3, under the already clarified assumptions.

.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In thousands of RSD

As of December 31, 2021	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	51,717,845	281,167	882,434	52,881,446	39,662	1,980	551,661	593,303	52,288,142
Cash Loans	39,752,894	307,923	556,759	40,617,576	227,845	16,431	440,670	684,946	39,932,630
Agricultural Loans	12,152,637	157,646	263,810	12,574,093	124,004	5,718	171,468	301,190	12,272,903
Other Loans	3,939,523	50,199	199,853	4,189,575	24,832	2,541	180,864	208,237	3,981,338
Micro Business	9,305,709	1,379,944	418,004	11,103,657	138,159	24,767	201,411	364,337	10,739,320
Total retail	**116,868,608**	**2,176,879**	**2,320,860**	**121,366,347**	**554,502**	**51,437**	**1,546,074**	**2,152,013**	**119,214,334**
Large corporate clients	38,090,634	2,686,374	4,173,753	44,950,761	479,645	181,813	2,746,853	3,408,311	41,542,450
Middle corporate clients	12,840,354	587,428	249,519	13,677,301	99,912	3,927	160,001	263,840	13,413,461
Small corporate clients	4,083,048	357,777	498,639	4,939,464	46,513	3,879	160,267	210,659	4,728,805
State owned clients	22,630,517	605,124	3,053,533	26,289,174	300,909	54,809	1,123,741	1,479,459	24,809,715
Other	5,433,373	-	1,517,518	6,950,891	104,640	-	1,510,073	1,614,713	5,336,178
Total corporate	**83,077,926**	**4,236,703**	**9,492,962**	**96,807,591**	**1,031,619**	**244,428**	**5,700,935**	**6,976,982**	**89,830,609**
Total	**199,946,534**	**6,413,582**	**11,813,822**	**218,173,938**	**1,586,121**	**295,865**	**7,247,009**	**9,128,995**	**209,044,943**
Due from banks	**29,151,602**	**-**	**-**	**29,151,602**	**20,901**	**-**	**-**	**20,901**	**29,130,701**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In thousands of RSD

As of December 31, 2020	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing loans	45,177,028	688,692	905,200	46,770,920	16,848	4,057	416,440	437,345	46,333,575
Cash loans	37,136,903	637,940	277,545	38,052,388	121,729	32,729	223,138	377,596	37,674,792
Agriculture Loans	11,475,146	222,594	282,684	11,980,424	92,244	21,850	122,071	236,165	11,744,259
Other Loans	4,277,483	82,170	198,889	4,558,542	23,469	4,846	178,465	206,780	4,351,762
Micro business	8,318,090	1,429,708	440,735	10,188,533	115,242	38,180	219,625	373,047	9,815,486
Total retail	**106,384,650**	**3,061,104**	**2,105,053**	**111,550,807**	**369,532**	**101,662**	**1,159,739**	**1,630,933**	**109,919,874**
Large corporate clients	24,164,279	6,231,195	6,429,321	36,824,795	72,656	62,304	3,675,082	3,810,042	33,014,753
Middle corporate clients	7,876,894	740,097	531,659	9,148,650	41,383	6,090	194,402	241,875	8,906,775
Small corporate clients	2,959,089	298,297	823,753	4,081,139	27,425	4,937	393,345	425,707	3,655,432
State owned clients	21,815,385	764,054	3,588,648	26,168,087	70,593	37,864	1,087,247	1,195,704	24,972,383
Other	8,717,394	1,075	4,198,260	12,916,729	220,446	58	3,869,353	4,089,857	8,826,872
Total clients	**65,533,041**	**8,034,718**	**15,571,641**	**89,139,400**	**432,503**	**111,253**	**9,219,429**	**9,763,185**	**79,376,215**
Total	**171,917,691**	**11,095,822**	**17,676,694**	**200,690,207**	**802,035**	**212,915**	**10,379,168**	**11,394,118**	**189,296,089**
Due from banks	**18,146,238**	**-**	**-**	**18,146,238**	**4,168**	**-**	**-**	**4,168**	**18,142,070**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Changes in impairment allowance of receivables in the Balance Sheet

In thousands of RSD

	As of December 31, 2020	Increase in impairment allowance	Reversal of impairment allowance	Other changes	As of December 31, 2021
Total retail	1,630,933	3,221,861	(2,156,325)	(544,456)	2.152.013
Total corporate	9,763,185	4,700,895	(2,681,253)	(4,805,845)	6.976.982
Total	**11,394,118**	**7,922,756**	**(4,837,578)**	**(5,350,301)**	**9.128.995**
Due from banks	**4,168**	**50,262**	**(33,667)**	**138**	**20,901**

** Other changes relate to the write-off of entirely impaired receivables from balance sheet to off-balance sheet records, exchange rate differences and other changes.*

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Problematic loans and receivables – stage 3

Problematic loans and receivables are those loans and receivables for which the Group 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 – stage 1 and stage 2 (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.

Impairment on a group basis is based on expected credit loss in accordance with the probability of default in the next 12 months (receivables in stage 1), except when there is a significant deterioration in credit risk compared to the moment of initial recognition, when credit losses are assessed on the basis probabilities of default for the period until the end of the life of the instrument (receivables in stage 2). Appreciating the specifics of doing business with clients, migration for business clients, micro business, and the population by types of products are especially determined.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Receivables by days past due, **stage 1 and 2**

In thousands of RSD

As of December 31, 2021	Stage 1						Stage 2					
	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	51,575,978	141,867	-	-	-	**51,717,845**	232,743	3,166	42,530	2,727	-	**281,166**
Cash Loans	37,047,151	2,705,743	-	-	-	**39,752,894**	116,090	80,544	69,858	41,432	-	**307,924**
Agricultural Loans	11,980,655	171,982	-	-	-	**12,152,637**	94,462	7,358	41,340	14,486	-	**157,646**
Other Loans	3,628,886	310,637	-	-	-	**3,939,523**	26,426	8,153	9,760	5,860	-	**50,199**
Micro Business	8,726,237	579,472	-	-	-	**9,305,709**	1,125,515	191,711	54,256	8,462	-	**1,379,944**
Total retail	**112,958,907**	**3,909,701**	**-**	**-**	**-**	**116,868,608**	**1,595,236**	**290,932**	**217,744**	**72,967**	**-**	**2,176,879**
Large corporate clients	38,087,679	2,955	-	-	-	**38,090,634**	2,686,374	-	-	-	-	**2,686,374**
Middle corporate clients	12,292,788	547,566	-	-	-	**12,840,354**	526,554	60,874	-	-	-	**587,428**
Small corporate clients	3,976,815	106,233	-	-	-	**4,083,048**	159,628	195,245	2,904	-	-	**357,777**
State owned clients	22,302,664	327,853	-	-	-	**22,630,517**	470,690	134,434	-	-	-	**605,124**
Other	5,433,373	-	-	-	-	**5,433,373**	-	-	-	-	-	**-**
Corporate clients	**82,093,319**	**984,607**	**-**	**-**	**-**	**83,077,926**	**3,843,246**	**390,553**	**2,904**	**-**	**-**	**4,236,703**
Total	**195,052,226**	**4,894,308**	**-**	**-**	**-**	**199,946,534**	**5,438,482**	**681,485**	**220,648**	**72,967**	**-**	**6,413,582**
Out of which: restructured							161,980	101,468	1,998	-	-	**265,446**
Due from banks	**20,744,515**	**8,406,767**	**-**	**-**	**-**	**29,151,602**	**-**	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Receivables by days past due, **stage 1 and 2**

In thousands of RSD

As of December 31, 2020	Stage 1						Stage 2					
	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	45,133,418	43,610	-	-	-	45,177,028	551,533	3,053	88,293	45,813	-	688,692
Cash Loans	34,256,339	2,880,564	-	-	-	37,136,903	165,285	118,593	248,709	105,353	-	637,940
Agricultural Loans	11,219,296	255,850	-	-	-	11,475,146	68,022	20,534	82,356	51,682	-	222,594
Other Loans	3,970,234	307,249	-	-	-	4,277,483	33,645	10,294	27,028	11,203	-	82,170
Micro business	7,925,617	392,473	-	-	-	8,318,090	1,042,963	302,015	73,106	11,624	-	1,429,708
Total retail	**102,504,904**	**3,879,746**	**-**	**-**	**-**	**106,384,650**	**1,861,448**	**454,489**	**519,492**	**225,675**	**-**	**3,061,104**
Large corporate clients	24,094,092	70,187	-	-	-	24,164,279	6,138,683	92,512	-	-	-	6,231,195
Middle corporate clients	7,773,498	103,396	-	-	-	7,876,894	629,973	107,051	3,073	-	-	740,097
Small corporate clients	2,864,269	94,820	-	-	-	2,959,089	225,281	30,505	42,511	-	-	298,297
State owned clients	21,439,880	375,505	-	-	-	21,815,385	595,476	61,171	107,407	-	-	764,054
Other	8,717,394	0	-	-	-	8,717,394	1,075	-	-	-	-	1,075
Corporate clients	**64,889,133**	**643,908**	**-**	**-**	**-**	**65,533,041**	**7,590,488**	**291,239**	**152,991**	**-**	**-**	**8,034,718**
Total	**167,394,037**	**4,523,654**	**-**	**-**	**-**	**171,917,691**	**9,451,936**	**745,728**	**672,483**	**225,675**	**-**	**11,095,822**
Out of which: restructured	-	-	-	-	-	-	287,926	24,334	110,022	2,279	-	424,561
Due from banks	**18,146,238**	**-**	-	-	-	**18,146,238**	**-**	**-**	**-**	**-**	-	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Loans and receivables from clients according to the criterion of inclusion in Stage 2

In thousands of RSD

	As of December 31, 2021					As of December 31, 2020				
	Change of IR	**Restructuring**	**Due up to 30 days**	**Other**	**Total**	**Change of IR**	**Restructuring**	**Due up to 30 days**	**Other**	**Total**
Housing Loans	60,444	148,789	23,958	47,976	281,167	28.535	252.908	37.823	369.426	688.692
Cash Loans	6,543	-	72,711	228,669	307,923	3.428	316	88.172	546.024	637.940
Agricultural Loans	38,434	4,456	73,754	41,002	157,646	-	6.138	113.976	102.480	222.594
Other Loans	257	12,880	8,085	28,977	50,199	268	15.371	12.746	53.785	82.170
Micro Businesses	47,102	-	61,518	1,271,324	1,379,944	344.515	-	165.998	919.195	1.429.708
Retail clients	**152,780**	**166,125**	**240,026**	**1,617,948**	**2,176,879**	**376.746**	**274.733**	**418.715**	**1.990.910**	**3.061.104**
Large corporate clients	992,124	-	-	1,694,250	2,686,374	4.641.240	-	-	1.589.955	6.231.195
Middle corporate clients	-	-	-	587,428	587,428	7.498	-	3.073	729.526	740.097
Small corporate clients	-	-	162,801	194,976	357,777	23.756	-	115.073	159.468	298.297
State owned clients	22,839	99,321	-	482,964	605,124	439.346	149.828	184	174.696	764.054
Other		-		-	-	-	-	-	1.075	1.075
Corporate clients	**1,014,963**	**99,321**	**162,801**	**2,959,618**	**4,236,703**	**5.111.840**	**149.828**	**118.330**	**2.654.720**	**8.034.718**
Total	**1,167,743**	**265,446**	**402,827**	**4,577,566**	**6,413,582**	**5.488.586**	**424.561**	**537.045**	**4.645.630**	**11.095.822**
Due from banks				**-**	**-**					**-**

'Other' includes technical and expert signals (in accordance with the process of early identification of potentially risky exposures) (Watch list), as well as impaired creditworthiness of individuals. The change of rating refers to the change of NLB rating for 3 categories from the moment of approval of placement, ie from March 31, 2021 for the existing portfolio.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impairment allowance according to the criterion of inclusion in Stage 2

In thousands of RSD

	As of December 31, 2021					As of December 31, 2020				
	Change of IR	Restructuring	Due up to 30 days	Other	Total	Change of IR	Restructuring	Due up to 30 days	Other	Total
Housing Loans	61	930	895	94	1,980	98	1.524	118	2.317	4.057
Cash Loans	103	-	8,303	8,026	16,432	49	-	13.681	18.999	32.729
Agricultural Loans	400	150	4,298	870	5,718	-	248	15.797	5.805	21.850
Other Loans	2	826	1,138	575	2,541	1	3.393	730	722	4.846
Micro Businesses	308	-	957	23,502	24,767	14.640	-	6.195	17.345	38.180
Retail clients	**874**	**1,907**	**15,590**	**33,067**	**51,438**	**14.788**	**5.165**	**36.521**	**45.188**	**101.662**
Large corporate clients	179,874	-	-	1,940	181,814	60.007	-	-	2.297	62.304
Middle corporate clients	-	-	-	3,927	3,927	455	-	29	5.606	6.090
Small corporate clients	-	-	1,466	2,412	3,878	1.928	-	655	2.354	4.937
State owned clients	379	3,610	-	50,820	54,809	32.907	2.805	1	2.151	37.864
Other				-	-	-	-	-	58	58
Corporate clients	**180,253**	**3,610**	**1,466**	**59,099**	**244,428**	**95.297**	**2.805**	**685**	**12.466**	**111.253**
Total	**181,127**	**5,517**	**17,056**	**92,166**	**295,866**	**110.085**	**7.970**	**37.206**	**57.654**	**212.915**
Due from banks				**-**						**-**

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due ***– Problematic receivables, stage 3***

In thousands of RSD

	Stage 3					
As of December 31, 2021	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	315,972	4,880	23,333	3,818	534,431	**882,434**
Cash Loans	171,327	63,347	25,558	21,592	274,935	**556,759**
Agricultural Loans	77,811	5,360	6,503	1,156	172,980	**263,810**
Other Loans	25,659	4,468	4,417	4,290	161,019	**199,853**
Micro business	168,389	40,395	4,212	7,866	197,142	**418,004**
Total retail	**759,158**	**118,450**	**64,023**	**38,722**	**1,340,507**	**2,320,860**
Large corporate clients	2,275,290	-	-	-	1,898,463	**4,173,753**
Middle corporate clients	141,965	6,860	26,410	-	74,284	**249,519**
Small corporate clients	63,314	-	2,286	-	433,039	**498,639**
State owned clients	2,921,376	-	-	-	132,157	**3,053,533**
Other	216,895	-	-	-	1,300,623	**1,517,518**
Corporate clients	**5,618,840**	**6,860**	**28,696**	**-**	**3,838,566**	**9,492,962**
Total	**6,377,998**	**125,310**	**92,719**	**38,722**	**5,179,073**	**11,813,822**
Out of which: restructured	4,817,948	1,482	31,741	1,049	1,325,318	**6,177,538**
Due from banks						

Receivables with a delay of less than 90 days (mostly in the parent bank) in stage 3 relate to clients who have financial difficulties as a result of the impact of the pandemic caused by the COVID-19 on the decline in business activity and reduction of financial potential to regulate liabilities to the Group and the Group assessed that there is a risk of default until the end of loan repayment.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due ***– Problematic receivables, stage 3***

In thousands of RSD

	Stage 3					
As of December 31, 2020	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	267,714	1,130	71,295	46,172	518,889	**905,200**
Cash Loans	41,801	19,780	15,113	51,643	149,208	**277,545**
Agricultural Loans	48,529	10,887	20,242	11,218	191,808	**282,684**
Other Loans	17,941	2,375	2,224	1,091	175,258	**198,889**
Micro business	33,232	18,287	36,035	19,314	333,867	**440,735**
Total retail	**409,217**	**52,459**	**144,909**	**129,438**	**1,369,030**	**2,105,053**
Large corporate clients	1,111,839	-	303,977	-	5,013,505	**6,429,321**
Middle corporate clients	194,086	-	41,773	4,094	291,706	**531,659**
Small corporate clients	37,004	-	34,525	10,472	741,752	**823,753**
State owned clients	3,418,323	-	-	-	170,325	**3,588,648**
Other	196,673	-	-	-	4,001,587	**4,198,260**
Corporate clients	**4,957,925**	**-**	**380,275**	**14,566**	**10,218,875**	**15,571,641**
Total	**5,367,142**	**52,459**	**525,184**	**144,004**	**11,587,905**	**17,676,694**
Out of which: restructured	4,003,837	5,009	56,271	19,125	5,037,927	**9,122,169**
Due from banks						

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans

In thousands of RSD

As of December 31, 2021	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Impairment allowance stage 3	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**121,366,347**	**2,152,013**	**2,320,860**	**165,776**	**1,546,074**	**1,91%**	**1,836,069**
Housing Loans	52,881,446	593,303	882,434	80,414	551,661	1,67%	882,104
Cash Loans	40,617,576	684,946	556,759	9,077	440,670	1,37%	187,051
Agricultural Loans	12,574,093	301,190	263,810	44,479	171,468	2,10%	253,643
Other Loans	4,189,575	208,237	199,853	10,962	180,864	4,77%	16,532
Micro business	11,103,657	364,337	418,004	20,844	201,411	3,76%	496,739
Corporate clients	**96,807,591**	**6,976,982**	**9,492,962**	**6,011,762**	**5,700,935**	**9,81%**	**7,844,168**
Agriculture	3,163,493	18,747	15,144	-	2,926	0,48%	30,248
Manufacturing industry	16,822,078	1,555,048	2,183,388	2,108,437	1,271,793	12,98%	2,182,839
Electric Energy	5,144,496	67,359	-	-	-	0,00%	-
Construction	15,551,101	693,521	733,092	43,801	613,374	4,71%	738,069
Wholesale and Retail	19,363,305	293,294	83,137	15,912	32,894	0,43%	83,682
Service Activities	15,953,991	1,718,269	3,397,515	2,826,685	1,402,480	21,30%	3,407,376
Real Estate Activities	8,184,243	653,950	1,283,501	963,962	629,126	15,68%	1,295,817
Other	12,624,884	1,976,794	1,797,185	52,965	1,748,342	14,24%	106,137
Total	**218,173,938**	**9,128,995**	**11,813,822**	**6,177,538**	**7,247,009**	**5,41%**	**9,680,237**
Due from banks	**29,151,602**	**20,901**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Participation of problematic receivables, ***stage 3 in total loans***

In thousands of RSD

As of December 31, 2020	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Impairment allowance stage 3	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	**111,550,807**	**1,630,933**	**2,105,053**	**340,790**	**1,159,739**	**1,89%**	**1,733,364**
Housing Loans	46,770,920	437,345	905,200	145,700	416,440	1,94%	895,187
Cash Loans	38,052,388	377,596	277,545	5,823	223,138	0,73%	103,692
Agricultural Loans	11,980,424	236,165	282,684	48,649	122,071	2,36%	264,313
Other Loans	4,558,542	206,780	198,889	16,384	178,465	4,36%	18,916
Micro business	10,188,533	373,047	440,735	124,234	219,625	4,33%	451,256
Corporate clients	**89,139,400**	**9,763,185**	**15,571,641**	**8,781,379**	**9,219,429**	**17,47%**	**13,971,723**
Agriculture	2,876,122	13,199	9,002	-	4,928	0,31%	9,170
Manufacturing industry	12,077,559	1,162,333	2,847,426	2,796,569	1,095,828	23,58%	2,846,877
Electric Energy	3,529,051	15,861	-	-	-	0,00%	-
Construction	12,650,343	547,050	669,404	7,057	525,043	5,29%	669,539
Wholesale and Retail	17,314,441	435,322	672,784	503,610	354,573	3,89%	666,399
Service Activities	11,828,689	2,313,040	4,632,020	4,582,130	2,253,170	39,16%	4,631,098
Real Estate Activities	8,092,592	491,452	1,356,389	687,488	474,825	16,76%	1,371,167
Other	20,770,603	4,784,928	5,384,616	204,525	4,511,062	25,92%	3,777,473
Total	**200,690,207**	**11,394,118**	**17,676,694**	**9,122,169**	**10,379,168**	**8,81%**	**15,705,087**
Due from banks	**18,146,238**	**4,168**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Changes in problematic receivables

In thousands of RSD

	Gross as of December 31, 2021	New problematic receivables – stage 3	Decrease in problematic receivables – stage 3	Foreign exchange rate effect	Other changes	Gross as of December 31, 2021	Net as of December 31, 2021
Housing Loans	905,200	400,965	(359,882)	3,114	(66,964)	882,433	330,773
Cash Loans	277,545	572,246	(174,888)	-	(118,144)	556,759	116,088
Agricultural Loans	282,684	173,591	(141,260)	4	(51,208)	263,811	92,343
Other Loans	198,889	96,389	(86,772)	200	(8,853)	199,853	18,988
Micro business	440,735	428,098	(303,841)	5	(146,994)	418,003	216,594
Total retail	**2,105,053**	**1,671,289**	**(1,066,643)**	**3,323**	**(392,163)**	**2,320,859**	**774,786**
Large corporate clients	6,429,321	-	(1,381,173)	102	(874,497)	4,173,753	1,426,900
Middle corporate clients	531,659	52,006	(208,923)	7	(125,230)	249,519	89,517
Small corporate clients	823,753	41,183	(346,337)	7	(19,967)	498,639	338,373
State owned clients	3,588,648	10,436	(482,895)	53	(62,709)	3,053,533	1,929,791
Other	4,198,260	2,619	(2,724,457)	40,286	811	1,517,519	7,446
Corporate clients	**15,571,641**	**106,244**	**(5,143,785)**	**40,455**	**(1,081,592)**	**9,492,963**	**3,792,027**
Total	**17,676,694**	**1,777,533**	**(6,210,428)**	**43,778**	**(1,473,755)**	**11,813,822**	**4,566,813**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The reduction of problem receivables mostly refers to the transfer of 100% of impaired receivables to off-balance sheet records (parent bank and KB Banja Luka), as well as the collection of non-performing placements.
Other changes relate to a partial increase/decrease in the amount of receivables within one lot during the year and mostly relate to partial collection.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Non-problematic receivables (stage 1 and stage 2)

In thousands of RSD

	As of December 31, 2021				As of December 31, 2020			
	Low (IR 1, 2)	Medium and High (IR 3,4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 1, 2)	Total	Value of collaterals
Housing Loans	51,980,174	18,838	51,999,012	51,005,399	45,757,208	108,512	45,865,720	45,451,796
Cash Loans	39,991,948	68,870	40,060,818	9,549,530	37,579,003	195,840	37,774,843	10,494,298
Agricultural Loans	12,277,055	33,228	12,310,283	11,877,066	11,611,627	86,113	11,697,740	11,065,548
Other Loans	3,982,438	7,283	3,989,721	196,778	4,332,597	27,056	4,359,653	206,082
Micro business	10,101,387	584,266	10,685,653	10,606,918	9,247,799	499,999	9,747,798	9,737,277
Total retail	**118,333,002**	**712,485**	**119,045,487**	83,235,691	**108,528,234**	**917,520**	**109,445,754**	**76,955,001**
Large corporate clients	36,644,209	4,132,799	40,777,008	40,842,438	24,713,727	5,681,747	30,395,474	30,401,513
Middle corporate clients	13,410,160	17,623	13,427,783	13,414,845	8,536,154	80,837	8,616,991	8,619,042
Small corporate clients	4,341,002	99,823	4,440,825	4,421,677	3,059,170	198,216	3,257,386	3,243,678
State owned clients	18,090,465	5,145,176	23,235,641	21,739,089	17,249,553	5,329,886	22,579,439	22,742,430
Other	3,523,808	1,909,564	5,433,372	4,222,590	4,404,927	4,313,542	8,718,469	6,899,846
Corporate clients	**76,009,644**	**11,304,985**	**87,314,629**	84,640,639	**57,963,531**	**15,604,228**	**73,567,759**	**71,906,509**
Total	**194,342,646**	**12,017,470**	**206,360,116**	**167,876,330**	**166,491,765**	**16,521,748**	**183,013,513**	**148,861,510**
Due from banks	**29,151,602**	**-**	**29,151,602**	**-**	**18,146,238**	**-**	**18,146,238**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In thousands of RSD

As of December 31, 2021	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restructured receivables – stage 2	Impairment of restructured receivables – stage 2	Restructured receivables – stage 3	Impairment of restructured receivables – stage 3	Percentage of restructured in total receivables (%)	The amount of collaterals for restructured receivables
Total retail	**121,366,347**	**2,152,013**	**331,901**	**110,280**	**166,125**	**1,907**	**165,776**	**108,373**	**0,27%**	**322,269**
Housing Loans	52,881,446	593,304	229,203	51,560	148,789	930	80,414	50,630	0,43%	229,203
Cash Loans	40,617,576	684,946	9,077	6,390	-	-	9,077	6,390	0,02%	1,426
Agricultural Loans	12,574,093	301,190	48,936	25,828	4,457	150	44,479	25,677	0,39%	48,936
Other Loans	4,189,575	208,236	23,841	10,510	12,879	827	10,962	9,684	0,57%	21,860
Micro business	11,103,657	364,337	20,844	15,992	-	-	20,844	15,992	0,19%	20,844
Corporate clients	**96,807,591**	**6,976,982**	**6,111,083**	**3,221,939**	**99,321**	**3,610**	**6,011,762**	**3,218,329**	**6,31%**	**6,120,716**
Agriculture	3,163,493	18,747	-	-	-	-	-	-	0,00%	-
Manufacturing industry	16,822,078	1,555,048	2,108,437	1,259,470	-	-	2,108,437	1,259,470	12,53%	2,108,437
Electric Energy	5,144,496	67,359	-	-	-	-	-	-	0,00%	-
Construction	15,551,101	693,521	43,801	30,771	-	-	43,801	30,771	0,28%	43,801
Wholesale and Retail	19,363,305	293,294	15,912	13,588	-	-	15,912	13,588	0,08%	15,912
Service Activities	15,953,991	1,718,269	2,826,685	1,319,804			2,826,685	1,319,804	17,72%	2,826,686
Real Estate Activities	8.184.243	653,950	963,962	553,756	-	-	963,962	553,756	11,78%	963,962
Other	12,624,884	1,976,794	152,286	44,550	99,321	3,610	52,965	40,940	1,20%	161,918
Total	**218,173,938**	**9,128,995**	**6,442,984**	**3,332,219**	**265,446**	**5,517**	**6,177,538**	**3,326,702**	**2,95%**	**6,442,985**
Due from banks	**29,151,602**	**20,901**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

As of December 31, 2020	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restructured receivables – stage 2	Impairment of restructured receivables – stage 2	Restructured receivables – stage 3	Impairment of restructured receivables – stage 3	Percentage of restructured in total receivables (%)	The amount of collaterals for restructured receivables
Total retail	**111,550,807**	**1,630,933**	**615,523**	**143,459**	**274,733**	**5,165**	**340,790**	**138,294**	**0,55%**	**608,443**
Housing Loans	46,770,920	437,345	398,608	57,930	252,908	1,524	145,700	56,406	0,85%	398,608
Cash Loans	38,052,388	377,596	6,139	4,564	316	0	5,823	4,564	0,02%	1,095
Agricultural Loans	11,980,424	236,165	54,787	21,111	6,138	248	48,649	20,863	0,46%	54,481
Other Loans	4,558,542	206,780	31,755	17,862	15,371	3,393	16,384	14,469	0,70%	30,025
Micro business	10,188,533	373,047	124,234	41,992	-	-	124,234	41,992	1,22%	124,234
Corporate clients	**89,139,400**	**9,763,185**	**8,931,207**	**4,245,431**	**149,828**	**2,805**	**8,781,379**	**4,242,626**	**10,02%**	**8,931,208**
Agriculture	2,876,122	13,199	-	-	-	-	-	-	0,00%	-
Manufacturing industry	12,077,559	1,162,333	2,796,569	1,095,279	-	-	2,796,569	1,095,279	23,16%	2,796,569
Electric Energy	3,529,051	15,861	-	-	-	-	-	-	0,00%	-
Construction	12,650,343	547,050	7,057	3,516	-	-	7,057	3,516	0,06%	7,057
Wholesale and Retail	17,314,441	435,322	503,610	307,622	-	-	503,610	307,622	2,91%	503,610
Service Activities	11,828,689	2,313,040	4,582,130	2,235,253			4,582,130	2,235,253	38,74%	4,582,130
Real Estate Activities	8.092.592	491,452	711,166	425,806	23,678	107	687,488	425,699	8,79%	711,167
Other	20,770,603	4,784,928	330,675	177,955	126,150	2,698	204,525	175,257	1,59%	330,675
Total	**200,690,207**	**11,394,118**	**9,546,730**	**4,388,890**	**424,561**	**7,970**	**9,122,169**	**4,380,920**	**4,76%**	**9,539,651**
Due from banks	**18,146,238**	**4,168**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousands of RSD

	Gross as of December 31, 2020	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes	Gross as of December 31, 2021	Net as of December 31, 2021
Housing Loans	398,608	-	(154,623)	1,531	(16,313)	229,203	177,643
Cash Loans	6,139	4,456	(1,433)	-	(85)	9,077	2,687
Agricultural Loans	54,786	12,336	(13,483)	1	(4,704)	48,936	23,108
Other Loans	31,755	5,466	(9 ,008)	-	(4,372)	23,841	13,332
Micro business	124,234	-	(103,390)	1	(1)	20,844	4,852
Total retail	615,523	22,258	(281,937)	1,533	(25,475)	331,901	221,622
Large corporate clients	5,296,620	280,916	(1,323,958)	86	(866,111)	3,387,553	1,250,049
Middle corporate clients	384,958	-	(86,120)	5	(94,775)	204,068	66,125
Small corporate clients	171,521	-	(141,127)	-	36,899	67,293	28,375
State owned clients	3,078,108	-	(585,362)	50	(40,627)	2,452,169	1,544,595
Other	-	-	-	-	-	-	-
Corporate clients	8,931,207	280,916	(2,136,567)	141	(964,614)	6,111,083	2,889,144
Total	**9,546,730**	**303,174**	**(2,418,504)**	**1,674**	**(990,089)**	**6,442,984**	**3,110,766**
Due from banks							

The increase in restructured receivables is a consequence of the restructuring of the NPL of the client whose business is endangered by the influence of COVID 19 (catering) in order to relax the client. The decrease in restructured receivables mostly refers to the transfer of 100% of impaired receivables to off-balance sheet records, as well as granting a moratorium 3 to one NPL client affected by the COVID 19 pandemic (traffic) in accordance with the Decision of the National Bank of Serbia.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Group implements in the restructuring of receivables

Members of the Group implement different restructuring measures depending on the needs of clients, respecting the Group's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Group members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,
- The introduction of a grace period or moratorium on the settlement of obligations within a specified period,
- Capitalization of days past due, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of receivables is formed,
- Refinancing of receivables - in justified cases it is possible to refinance receivables from other creditors in order to improve the position of the Group (collateral or financial approval of favourable repayment terms),
- Partial write-offs - in the past period, the Group members did not carry out partial write-offs in the course of restructuring,
- The conversion of debt into equity - has not been carried out in the past period

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration

The Group manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio. Depending on market trends, risk appetite, the Group's business policy and annual business plan, the Group reviews and, if necessary, changes the internally set limits.

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

In thousands of RSD

As of December 31, 2021	Stage 1 and 2					Stage 3				
	Serbia	Montenegro	BiH	EU	Other	Serbia	Montenegro	BiH	EU	Other
Total retail	**119,045,487**	**-**	**-**	**-**	**-**	**2,320,860**	**-**	**-**	**-**	**-**
Housing Loans	51,999,012	-	-	-	-	882,434	-	-	-	-
Cash Loans	40,060,818	-	-	-	-	556,758	-	-	-	-
Agricultural Loans	12,310,283	-	-	-	-	263,810	-	-	-	-
Other Loans	3,989,721	-	-	-	-	199,854	-	-	-	-
Micro business	10,685,653	-	-	-	-	418,004	-	-	-	-
Corporate clients	**81,878,911**	**697,393**	**4,738,325**	**-**	**-**	**9,492,962**	**-**	**-**	**-**	**-**
Agriculture	3,148,348	-	-	-	-	15,144	-	-	-	-
Manufacturing industry	14,638,690	-	-	-	-	2,183,388	-	-	-	-
Electric Energy	5,144,496	-	-	-	-	0	-	-	-	-
Construction	14,818,008					733,092				
Wholesale and Retail	19,280,169	-	-	-	-	83,137	-	-	-	-
Service Activites	12,556,477	-	-	-	-	3,397,515	-	-	-	-
Real Estate Activities	6,900,742	-	-	-	-	1,283,501	-	-	-	-
Other	5,391,981	697,393	4,738,325	-	-	1,797,185	-	-	-	-
Total	**200,924,398**	**697,393**	**4,738,325**	**-**	**-**	**11,813,822**	**-**	**-**	**-**	**-**
Due from banks	**9,681,018**	**2,718**	**66,022**	**17,265,585**	**2,136,259**	**-**	**-**	**-**	**-**	**-**

The total exposure of non-problematic receivables in Montenegro and BiH is at stage 1. Depending on general economic trends and developments in individual industrial sectors, the Group members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

In thousands of RSD

As of December 31, 2020	Stage 1 and 2					Stage 3				
	Serbia	Montenegro	BiH	EU	Other	Serbia	Montenegro	BiH	EU	Other
Total retail	**109,445,754**	**-**	**-**	**-**	**-**	**2,105,053**	**-**	**-**	**-**	**-**
Housing Loans	45,865,720	-	-	-	-	905,200	-	-	-	-
Cash Loans	37,774,843	-	-	-	-	277,545	-	-	-	-
Agricultural Loans	11,697,740	-	-	-	-	282,684	-	-	-	-
Other Loans	4,359,653	-	-	-	-	198,889	-	-	-	-
Micro business	9,747,798	-	-	-	-	440,735	-	-	-	-
Corporate clients	**64,849,738**	**2,494,280**	**6,223,741**	**-**	**-**	**15,571,641**	**-**	**-**	**-**	**-**
Agriculture	2,867,120	-	-	-	-	9,002	-	-	-	-
Manufacturing industry	9,230,133	-	-	-	-	2,847,426	-	-	-	-
Electric Energy	3,529,051	-	-	-	-	0	-	-	-	-
Construction	11,980,938					669,404				
Wholesale and Retail	16,641,657	-	-	-	-	672,784	-	-	-	-
Service Activates	7,196,670	-	-	-	-	4,632,020	-	-	-	-
Real Estate Activities	6,736,204	-	-	-	-	1,356,389	-	-	-	-
Other	6,667,965	2,494,280	6,223,741	-	-	5,384,616	-	-	-	-
Total	**174,295,492**	**2,494,280**	**6,223,741**	**-**	**-**	**17,676,694**	**-**	**-**	**-**	**-**
Due from banks	**4,542,713**	**538,842**	**320,686**	**11,213,216**	**1,530,781**	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

In thousands of RSD

	As of December 31, 2021		As of December 31, 2020	
	Gross	Net	Gross	Net
Financial assets:				
-at fair value trough profit and loss	512,823	512,823	8,308,106	8,308,106
-at fair value trough other comprehensive income	148,297,294	148,296,712	144,626,430	144,625,977
-at amortized cost	942,144	934,484	846,000	842,240
Total	149,752,261	149,744,019	153,780,536	153,776,323

Financial assets at fair value through profit and loss relate to investment units of the Kombank Monetary Fund, which are valued by mark to market, as well as securities of the Republic of Serbia, which are assessed according to the methodology of internally developed models (mark to model) as well as swap transactions and bonds of the Republic of Serbia, which are held at fair value through the other comprehensive income, or on the basis of market prices for securities traded on the stock market (mark to market).

Financial assets at fair value through other comprehensive income are placements for which there is an intent to hold them in an unspecified period of time and which can be sold due to liquidity needs or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, the Republic of Srpska, the Republic of Montenegro, local self-government units and bonds of other banks and countries (United States, the Republic of Slovenia and the Republic of Ireland).
Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market, as well as applying internally developed models in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

Securities held at amortized cost relate to corporate bonds.

4.1.7. Collateral against credit risk (collateral)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following review.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

As of December 31, 2021	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other collaterals*	Total	Real Estate	Deposits	Guarantees	Other Collaterals*	Total
Housing Loans	47,687,370	3,149	-	3,034,485	**50,725,004**	280,384	-	-	12	**280,396**
Cash Loans	11,574	483,456	-	8,974,616	**9,469,646**	-	5,728	-	74,156	**79,884**
Agricultural Loans	4,814,918	3,225	2,390	6,903,368	**11,723,901**	98,356	-	-	54,809	**153,165**
Other Loans	92,136	1,701	-	90,085	**183,922**	3,602	247	-	9,009	**12,858**
Micro business	509,859	613,396	5,942,221	1,502,101	**8,567,577**	287,179	137,312	668,068	946,781	**2,039,340**
Total retail	**53,115,857**	**1,104,927**	**5,944,611**	**20,504,655**	**80,670,050**	**669,521**	**143,287**	**668,068**	**1,084,767**	**2,565,643**
Large corporate clients	19,426,939	147,041	178,209	18,117,349	**37,869,538**	2,164,623	-	286,524	521,751	**2,972,898**
Middle corporate clients	2,518,415	400,245	3,302,787	6,390,237	**12,611,684**	226,553	-	234,757	341,852	**803,162**
Small corporate clients	543,294	124,816	1,946,794	1,356,364	**3,971,267**	152,149	366	104,374	193,522	**450,411**
State owned clients	3,901,029	-	4,096,268	12,295,570	**20,292,868**	-	-	-	1,446,221	**1,446,221**
Other	-	-	-	4,222,590	**4,222,590**	-	-	-	-	**-**
Corporate clients	**26,389,677**	**672,102**	**9,524,058**	**42,382,110**	**78,967,947**	**2,543,325**	**366**	**625,655**	**2,503,346**	**5,672,692**
Total	**79,505,534**	**1,777,029**	**15,468,669**	**62,886,765**	**159,637,995**	**3,212,846**	**143,653**	**1,293,723**	**3,588,113**	**8,238,335**
Of which: restructured	-	-	-	-	**-**	153,587	-	-	110,637	**264,224**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

** Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.*

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

As of December 31, 2021			Stage 3		
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	875,964	-	-	6,140	882,104
Cash Loans	-	5,693	-	181,358	187,051
Agricultural Loans	161,043	-	-	92,600	253,643
Other	565	1,074	-	14,893	16,532
Micro business	124,398	60,000	79,670	232,671	496,739
Total retail	**1,161,970**	**66,767**	**79,670**	**527,662**	**1,836,069**
Large corporate clients	3,782,867	-	-	325,456	4,108,323
Middle corporate clients	167,136	-	15,104	80,216	262,456
Small corporate clients	412,438	-	29,542	75,807	517,787
State owned clients	559,764	-	0	2,361,494	2,921,258
Other	31,845	-	956	1,543	34,344
Corporate clients	**4,954,050**	**-**	**45,602**	**2,844,516**	**7,844,168**
Total	**6,116,020**	**66,767**	**125,272**	**3,372,178**	**9,680,237**
Of which: restructured	3,760,260	-	-	2,418,500	6,178,760
Due from banks	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

	Stage 1					Stage 2				
As of December 31, 2020	**Real Estate**	**Deposits**	**Guarantees**	**Other Collaterals***	**Total**	**Real Estate**	**Deposits**	**Guarantees**	**Other Collaterals***	**Total**
Housing Loans	42,495,115	11,880	-	2,259,057	44,766,052	657,595	-	-	28,149	685,744
Cash Loans	6,090	564,087	-	9,681,758	10,251,935	127	10,204	-	232,032	242,363
Agricultural Loans	4,297,713	9,271	31,422	6,535,348	10,873,754	87,366	3,269	-	101,159	191,794
Other Loans	77,486	2,479	-	111,040	191,005	3,579	439	-	11,059	15,077
Micro business	643,012	552,313	3,871,910	3,098,204	8,165,439	397,175	181,335	142,226	851,102	1,571,838
Total reatail	**47,519,416**	**1,140,030**	**3,903,332**	**21,685,407**	**74,248,185**	**1,145,842**	**195,247**	**142,226**	**1,223,501**	**2,706,816**
Large corporate clients	11,551,288	178,205	3,416,827	8,803,852	23,950,172	5,660,395	-	220,144	570,802	6,451,341
Middle corporate clients	2,486,091	379,558	2,006,189	2,817,659	7,689,497	324,956	-	193,408	411,181	929,545
Small corporate clients	732,488	159,811	858,063	1,121,968	2,872,330	141,153	92	72,959	157,144	371,348
State owned clients	1,535,845	-	4,872,521	15,584,509	21,992,875	19,403	-	-	730,152	749,555
Other	-	-	-	6,899,846	6,899,846	-	-	-	-	-
Corporate clients	**16,305,712**	**717,574**	**11,153,600**	**35,227,834**	**63,404,720**	**6,145,907**	**92**	**486,511**	**1,869,279**	**8,501,789**
Total	**63,825,128**	**1,857,604**	**15,056,932**	**56,913,241**	**137,652,905**	**7,291,749**	**195,339**	**628,737**	**3,092,780**	**11,208,605**
Of which: restructured	-	-	-	-	-	249,991	-	-	172,863	422,854
Due from banks	-	-	-	-	-	-	-	-	-	-

** Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.*

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

	Stage 3				
As of December 31, 2020	**Real Estate**	**Deposits**	**Guarantees**	**Other Collaterals**	**Total**
Housing Loans	857,295	-	-	37,892	895,187
Cash Loans	533	813	-	102,346	103,692
Agricultural Loans	198,608	-	-	65,705	264,313
Other Loans	3,454	510	-	14,952	18,916
Micro business	217,186	-	10,481	223,589	451,256
Total retail	**1,277,076**	**1,323**	**10,481**	**444,484**	**1,733,364**
Large corporate clients	5,324,586	60	-	1,098,637	6,423,283
Middle corporate clients	447,496	-	-	82,111	529,607
Small corporate clients	254,436	-	20,213	562,812	837,461
State owned clients	568,989	-	-	2,856,666	3,425,655
Other	2,755,593	-	-	124	2,755,717
Corporate clients	**9,351,100**	**60**	**20,213**	**4,600,350**	**13,971,723**
Total	**10,628,176**	**1,383**	**30,694**	**5,044,834**	**15,705,087**
Of which: restructured	5,830,895	-	-	3,285,902	9,116,797
Due from banks	-	-	-	-	-

4 RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan to Value Ratio - LTV ratios.

Overview of loans covered by PP&E according to LTV range

In thousands of RSD

	Year ended December 31, 2021	2020
Less than 50%	18,331,413	18,976,984
50% - 70%	32,360,446	28,659,176
71% - 100%	23,164,003	28,222,903
101% - 150%	6,895,815	3,373,854
More than 150%	11,535,393	6,424,904
Total exposure	**92,287,070**	**85,657,821**
Average LTV	**59,78%**	**67,09%**

4.1.8. Material values acquired through the collection of receivables at net value

The collateral taken over by the Group members in the process of collecting placements is presented in the following review:

In thousands of RSD

	Residential Premises	Business Premises	Equipment	Land and Forests	Total
As of December 31, 2020	**48,829**	**1,042,203**	**24,063**	**115,766**	**1,230,861**
Acquisition	-	5,068	-	-	5,068
Sale	-	(224,536)	-	(3,852)	(228,388)
Transfer to assets held for sale	(12,298)	(138,133)	-	-	(150,431)
Other-change in value	16,768	50,021	(2,279)	14,870	79,380
As of December 31, 2021	**53,299**	**734,623**	**21,784**	**126,784**	**936,939**

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

Liquidity risk is the possibility of adverse effects on the Group's financial result and capital due to the Group's inability to settle its obligations, and in the event of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Group respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, and it respects the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

The liquidity risk is manifested in the difference between the inflow of funds on the one hand and the maturity of liabilities on the other hand, including the possibility of delaying planned inflows as well as unexpected outflows. Liquidity risk can arise in the form of risk of sources of funds and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. On the other hand, the risk of liquidity is manifested through the deficit of reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking liquidity risk out of the process of its management. The primary role in the liquidity risk management process is performed by the Assets and Liabilities Management Committee of the parent Bank within its competencies, as well as other relevant committees of the Group members, whose decisions may influence the Group's exposure to this risk.

In order to minimize liquidity risk, the Group:

- diversifies sources of funds, by currency and maturity;
- form and maintain sufficient level of liquidity reserves;
- manages funds;
- monitor future cash flows and liquidity on a daily basis;
- limits the basic sources of credit risk that have the most significant impact on the liquidity risk;
- defines and periodically tests the Liquidity Management Plans in Crisis Situations.

Liquidity risk management process consists of identification, measurement, mitigation, monitoring, controlling and reporting on liquidity risk.

Identification of liquidity risk in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

Measurement, or liquidity risk assessment, is a quantitative and / or qualitative assessment of the identified liquidity risk, using the following methods:

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Mitigation involves maintaining the liquidity risk at an acceptable level for the Group's risk profile by defining a system of limits that includes regulatory and internal limits, as well as the timely undertaking of risk mitigation measures and operations within these limits.

Liquidity risk control and monitoring includes the process of monitoring compliance with internally determined limits, as well as monitoring the defined measures for mitigating the Group's liquidity risk exposure, which includes control at all levels of liquidity risk management, as well as an independent control system implemented by organizational units responsible for internal audit and compliance control business.

Liquidity risk reporting includes the internal and external reporting system, is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month. In addition to harmonization with the externally defined liquidity limit, the Group adjusts its operations with a narrower liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month. During 2021, the Group maintained the liquid assets coverage ratio in all currencies, at a level not lower than the prescribed regulatory limit of 100%.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	2021	2020	2021	2020	2021	2020
As at December 31	3.88	4.06	3.65	3.94	454%	405%
Average for the period	4.18	4.17	3.94	4.00	601%	385%
Maximum for the period	4.68	4.73	4.42	4.50	757%	413%
Minimum for the period	3.51	3.42	3.37	3.27	425%	295%

During 2021, the liquidity indicator, the narrow liquidity indicator and the liquidity coverage ratio ranged above the defined limits.

The Group defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with internally defined liquidity limits on the last day:

	Limits	2021	2020
GAP up to 1 month / Total assets	Max (10%)	4.56%	0.10%
Cumulative GAP up to 3 months / Total assets	Max (20%)	5.68%	(1.02%)

In addition, the Group limits and adjusts the operations with the limits of the structure of liabilities and the limits defined by the maturity aspect of significant currencies.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2021

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	82,055,481	-	-	-	-	**82,055,481**
Loans and receivables due from other banks and other financial institutions	18,135,567	5,235,112	2,816,320	2,943,702	-	**29,130,701**
Loans and receivables due from customers	7,287,184	9,769,465	47,487,657	96,892,497	47,608,139	**209,044,942**
Financial assets (securities)	14,492,955	3,799,363	22,784,256	93,961,416	14,706,029	**149,744,019**
Other assets	1,336,303	581,039	60,532	-	-	**1,977,874**
Total	**123,307,490**	**19,384,979**	**73,148,765**	**193,797,615**	**62,314,168**	**471,953,017**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,942,830	34,864	156,887	335	-	**2,134,916**
Deposits and other liabilities due to customors	339,785,262	8,048,414	31,098,419	23,275,420	1,078,903	**403,286,418**
Other liabilities	1,096,392	324,183	409,857	661,701	26,488	**2,518,621**
Total	**342,824,484**	**8,407,461**	**31,665,163**	**23,937,456**	**1,105,391**	**407,939,955**
Net liquidity gap						
As of December 31, 2021	**(219,516,994)**	**10,977,518**	**41,483,602**	**169,860,159**	**61,208,777**	**64,013,062**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2020

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	86,892,070	-	-	-	-	**86,892,070**
Loans and receivables due from other banks and other financial institutions	14,487,364	1,274,584	229,829	2,873,705	-	**18,865,482**
Loans and receivables due from customers	8,519,209	9,733,181	44,571,951	102,511,591	54,097,695	**219,433,627**
Financial assets (securities)	661,487	6,874,596	13,282,947	112,787,393	24,832,233	**158,438,656**
Other assets	1,177,654	983,624	599,704	-	-	**2,760,982**
Total	**111,737,784**	**18,865,985**	**58,684,431**	**218,172,689**	**78,929,928**	**486,390,817**
Deposits and other liabilities due to banks, other financial institutions and central bank	4,651,670	1,996,227	597,961	850,332	-	**8,096,190**
Deposits and other liabilities due to customers	316,497,770	15,302,893	42,346,635	30,240,308	1,804,461	**406,192,067**
Other liabilities	2,179,207	295,806	884,991	496,016	26,373	**3,882,393**
Total	**323,328,647**	**17,594,926**	**43,829,587**	**31,586,656**	**1,830,834**	**418,170,650**
Net liquidity gap As of December 31, 2020	**(211,590,863)**	**1,271,059**	**14,854,844**	**186,586,033**	**77,099,094**	**68,220,167**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance positions arranged according to the remaining maturity, i.e. a conservative assumption is made that all transaction and avista deposits will be withdrawn within one month.

The Group collects deposits of corporate and retail sector, which usually have shorter maturities and can be withdrawn on demand. The short-term nature of these deposits increases the Group's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Group manages short-term liquidity risk by monitoring and controlling positions in all significant currencies in order to timely consider the need for additional sources of financing in the event of maturity of the respective positions, i.e. in the long-term plans the structure of its sources and placements in order to provide sufficiently stable sources and sufficient liquidity reserves. The management believes that the appropriate diversification of the portfolio of deposits by the number and type of depositors, as well as the previous experience, provide a good precondition for the existence of a stable and long-term deposit base, which is why no significant outflows are expected on this basis. The Group regularly reviews the Liquidity Management Plan in crisis situations and checks the survival and solvency period, the availability of sources for covering the liabilities that would possibly arise, or assess the support under the assumed conditions of the crisis.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at December 31, 2021

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	82,055,481	-	-	-	-	82,055,481
Loans and receivables due from other banks and other financial institutions	18,136,822	5,255,559	2,835,221	2,943,702	-	29,171,304
Loans and receivables due from customers	7,914,657	11,068,727	52,804,620	110,754,388	57,928,176	240,470,568
Financial assets (securities)	15,716,464	4,132,881	24,129,766	99,141,702	14,546,201	157,667,014
Other assets	1,336,303	581,039	60,532	-	-	1,977,874
Total	**125,159,726**	**21,038,206**	**79,830,139**	**212,839,792**	**72,474,377**	**511,342,240**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,942,999	35,138	157,494	335	-	2,135,966
Deposits and other liabilities due to customers	339,818,887	8,079,011	31,276,800	24,198,252	1,248,498	404,621,448
Other liabilities	1,097,302	325,921	416,501	674,920	29,251	2,543,895
Total	**342,859,189**	**8,440,070**	**31,850,795**	**24,873,507**	**1,277,749**	**409,301,310**
Net liquidity gap As of December 31, 2021	**(217,699,463)**	**12,598,136**	**47,979,344**	**187,966,285**	**71,196,628**	**102,040,930**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at 31 December 2020.

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	86,892,070	-	-	-	-	**86,892,070**
Loans and receivables due from other banks and other financial institutions	14,342,977	1,279,471	338,410	2,994,555	-	**18,955,413**
Loans and receivables due from customers	9,329,969	11,336,879	51,157,252	121,893,095	68,378,055	**262,095,250**
Financial assets (securities)	661,487	6,874,596	13,282,947	112,787,393	24,832,233	**158,438,657**
Other assets	1,177,656	983,624	658,677	-	-	**2,819,957**
Total	**112,404,160**	**20,474,570**	**65,437,286**	**237,675,043**	**93,210,288**	**529,201,347**
Deposits and other liabilities due to banks, other financial institutions and central bank	4,657,754	2,003,471	621,402	994,521	-	**8,277,148**
Deposits and other liabilities due to customers	316,635,995	15,512,558	42,893,599	31,905,403	2,234,999	**409,182,554**
Other liabilities	2,197,450	295,806	884,991	496,016	26,373	**3,900,636**
Total	**323,491,199**	**17,811,835**	**44,399,992**	**33,395,940**	**2,261,372**	**421,360,338**
Net liquidity gap						
As of December 31, 2020	**(211,087,039)**	**2,662,735**	**21,037,294**	**204,279,103**	**90,948,916**	**107,841,009**

Undiscounted cash flows arising from the positions of monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates. In the case of transaction and avista deposits that are in accordance with a conservative approach, allocated to a maturity of up to one month, undiscounted cash flows include only flows based on the debt principal.

4. RISK MANAGEMENT (continued)

4.3. *Market risks*

Market risk is the possibility of adverse effects on the Group's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Group is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, the Investment Board as well as other relevant committees of the parent Bank, as well as the relevant committees of the Group members whose decisions may influence the Group's exposure to this risk.

4.3.1 Interest rate risk

Interest rate risk is the risk of adverse effects on the Group's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Group manages the following types of interest rate risk:

• Risk of time mismatch of repayment and repricing risk;
• Yield curve risk - to whom it is exposed due to change in yield curve shape;
• Base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;
• Optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Group manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

The Group particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

4. RISK MANAGEMENT (continued)

4.3.1 Interest rate risk (continued)

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

• GAP analysis;
• Sensitivity analysis;
• Basic risk analysis;
• Credit spread risk analysis.

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile and implies the process of defining the Group's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Group's interest rate risk. Interest rate risk control involves control at all levels of governance as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Group's members on interest rate risk management.

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

During 2021, interest rate risk indicators moved within internally defined limits.

Compliance with internally defined limits of economic value of capital:

	2021	2020
On December 31st	2.69%	3.06%
Average for period	2.77%	3.63%
Maximum for period	3.13%	4.20%
Minimum for period	1.44%	3.06%
Limit	**20%**	**20%**

4. RISK MANAGEMENT (continued)

4.3.1 Interest rate risk (continued)

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:
Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2021

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Interest Bearing	Total
Cash and cash funds held with the central bank	25,209,646	-	-	-	-	25,209,646	56,845,835	82,055,481
Loans and receivables due from other banks and other financial institutions	21,095,589	5,235,112	2,800,000	-	-	29,130,701	-	29,130,701
Loans and receivables due from customers	91,730,632	20,754,905	51,424,776	43,137,734	1,996,895	209,044,942	-	209,044,942
Financial assets (securities)	13,980,132	3,799,363	22,784,256	93,866,822	14,706,029	149,136,602	607,417	149,744,019
Other assets	-	-	-	-	-	-	1,977,874	1,977,874
Total	**152,015,999**	**29,789,380**	**77,009,032**	**137,004,556**	**16,702,924**	**412,521,891**	**59,431,126**	**471,953,017**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,133,440	-	-	-	-	2,133,440	1,476	2,134,916
Deposits and other liabilities due to customers	340,549,150	7,715,980	29,490,012	22,998,574	1,038,413	401,792,129	1,494,289	403,286,418
Other liabilities	-	-	-	-	-	-	2,518,621	2,518,621
Total	**342,682,590**	**7,715,980**	**29,490,012**	**22,998,574**	**1,038,413**	**403,925,569**	**4,014,386**	**407,939,955**
Interest rate GAP At December 31, 2021	**(190,666,591)**	**22,073,400**	**47,519,020**	**114,005,982**	**15,664,511**	**8,596,322**	**55,416,740**	**64,013,062**

4. RISK MANAGEMENT (continued)

4.3.1 Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2020

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Interest Bearing	Total
Cash and cash funds held with the central bank	34,314,578	-	-	-	-	34,314,578	52,577,492	86,892,070
Loans and receivables due from other banks and other financial institutions	15,790,102	1,293,441	255,292	127,601	-	17,466,436	1,399,046	18,865,482
Loans and receivables due from customers	72,906,125	22,677,677	63,933,593	55,078,214	4,346,151	218,941,760	491,867	219,433,627
Financial assets (securities)	152,566	6,874,596	13,282,947	112,787,393	24,832,233	157,929,735	508,921	158,438,656
Other assets	-	-	-	-	-	-	2,760,982	2,760,982
Total	123,163,371	30,845,714	77,471,832	167,993,208	29,178,384	428,652,509	57,738,308	486,390,817
Deposits and other liabilities due to banks, other financial institutions and central bank	4,223,467	2,073,599	946,568	850,133	-	8,093,767	2,423	8,096,190
Deposits and other liabilities due to customors	310,601,395	15,783,848	43,810,784	32,894,526	1,734,143	404,824,696	1,367,371	406,192,067
Other liabilities	38,257	-	-	-	-	38,257	3,844,136	3,882,393
Total	314,863,119	17,857,447	44,757,352	33,744,659	1,734,143	412,956,720	5,213,930	418,170,650
Interest rate GAP At December 31, 2020	**(191,699,748)**	**12,988,267**	**32,714,480**	**134,248,549**	**27,444,241**	**15,695,789**	**52,524,378**	**68,220,167**

4. RISK MANAGEMENT (continued)

4.3.1 Interest rate risk (continued)

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and avista deposits will be withdrawn within one month.

The management of the Group members believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Group regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Group.

The Group assesses the impact that standardized interest rate shocks, parallel positive and negative interest rates on the reference yield curve of 400 basis points for RSD and 200 basis points for each significant currency individually and for all other currencies together.

Report on GAP Interest Rate Risk of the Monetary Sub-balance on December 31, 2021 (continued)

The standard scenario implies a parallel change (increase and decrease) of the interest rate of 100 basis points (b.p.). The analysis of the Group's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 bp.
2021		
As at December 31	420,400	(420,400)
2020		
As at December 31	538,445	(538,445)

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk

The Group is exposed to foreign exchange risk that manifests itself through the possibility of adverse effects on the financial result and equity due to the change in inter-currency relationships, the change in the value of the domestic currency against foreign currencies or the change in the value of gold and other precious metals. All positions contained in the banking book and trading book in foreign currency and gold, as well as dinar (RSD) positions indexed by currency clause are exposed to foreign exchange risk.

In order to minimize exposure to foreign exchange risk, the Group performs diversification of the currency structure of the portfolio and the currency structure of liabilities, the adjustment of open positions by individual currencies, respecting the principles of manual asset transformation.

The Group has established an appropriate organizational structure, which clearly delineates the process of taking foreign exchange risk from the process of its management.

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Group comprehensively identifies in a timely manner the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

• GAP analysis and foreign exchange risk indicator;
• VaR;
• Stress test;
• Backtesting,

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Group's risk profile by setting a transparent system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and the compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk enables timely measures to be taken to maintain foreign exchange risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Group coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at December 31:

	2021	2020
Total risk foreign exchange position	1,306,182	6,993,596
Foreign exchange risk indicator	2.00%	10.13%
Regulatory limit	20%	20%

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at December 31, 2021

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	43,703,757	210,126	8,007,477	620,924	52,542,284	-	-	29,513,197	**82,055,481**
Loans and receivables due from other banks and other financial institutions	15,242,500	2,097,905	450,110	3,077,949	20,868,464	-	-	8,262,237	**29,130,701**
Loans and receivables due from customers	6,910,244	1,138	-	0	6,911,382	138,770,935	47,704	63,314,921	**209,044,942**
Financial assets (securities)	53,502,848	8,162,770	1,760,642	0	63,426,260	40,600	-	86,277,159	**149,744,019**
Other assets	612,254	2,136,748	894	119	2,750,015	-	-	-772,141	**1,977,874**
Total	**119,971,603**	**12,608,687**	**10,219,123**	**3,698,992**	**146,498,405**	**138,811,535**	**47,704**	**186,595,373**	**471,953,017**
Deposits and other liabilities due to banks, other financial institutions and central bank	970,794	192,765	140,395	29,461	1,333,415	1,352	-	800,149	**2,134,916**
Deposits and other liabilities due to customers	254,535,330	11,217,791	10,127,893	3,596,891	279,477,905	336,019	-	123,472,494	**403,286,418**
Other liabilities	313,134	149,104	4,868	14,948	482,054	805,394,00	-	1,231,173	**2,518,621**
Total	**255,819,258**	**11,559,660**	**10,273,156**	**3,641,300**	**281,293,374**	**1,142,765**	**-**	**125,503,816**	**407,939,955**
Net Currency Position December 31, 2021	**(135,847,655)**	**1,049,027**	**(54,033)**	**57,692**	**(134,794,969)**	**137,668,770**	**47,704**	**61,091,557**	**64,013,062**

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at December 31, 2020

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	36,703,618	1,020,515	6,875,136	5,386,502	49,985,771	-	-	-	36,906,299	**86,892,070**
Loans and receivables due from other banks and other financial institutions	13,193,256	2,173,599	500,522	2,952,461	18,819,838	-	-	-	45,644	**18,865,482**
Loans and receivables due from customers	24,909,300	-	-	17,553,351	42,462,651	120,159,267	-	53,894	56,757,815	**219,433,627**
Financial assets (securities)	55,915,979	9,753,914	1,739,077	2,595,794	70,004,764	105,757	-	-	88,328,135	**158,438,656**
Other assets	1,202,392	58,087	1,155	22,348	1,283,982	-	-	-	1,477,000	**2,760,982**
Total	**131,924,545**	**13,006,115**	**9,115,890**	**28,510,456**	**182,557,006**	**120,265,024**	**-**	**53,894**	**183,514,893**	**486,390,817**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,478,460	112,909	42,743	4,057,180	5,691,292	20,158	-	-	2,384,740	**8,096,190**
Deposits and other liabilities due to customers	251,820,362	11,851,314	8,970,720	18,203,193	290,845,589	144,321	-	-	115,202,157	**406,192,067**
Other liabilities	795,966	160,655	53,372	419,224	1,429,217	751,592	-	-	1,701,584	**3,882,393**
Total	**254,094,788**	**12,124,878**	**9,066,835**	**22,679,597**	**297,966,098**	**916,071**	**-**	**-**	**119,288,481**	**418,170,650**
Net Currency Position December 31, 2020	**(122,170,243)**	**881,237**	**49,055**	**5,830,859**	**(115,409,092)**	**119,348,953**	**-**	**53,894**	**64,226,412**	**68,220,167**

4. RISK MANAGEMENT (continued)

4.5. A review of the ten-day VaR

The Group also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and/or changes in more financial variables on the financial result, equity and foreign exchange risk indicator.

VaR denotes the largest possible loss in the Group's portfolio for a certain period and at a predetermined confidence interval. The Group calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Group calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2021 and 2020 is shown as follows:

In thousands of RSD

	As at December 31	Average	Maximum	Minimal
2021				
Foreign currency risk	17,267	752	17,267	43
2020				
Foreign currency risk	2,718	4,351	64,157	975

4.6. Operational risk

The Group members monitor daily operational risk events and manage operational risks. In order to efficiently monitor operational risk, in each organizational part of the Bank Group member, employees for operational risks are appointed, who are responsible for the accuracy and promptness of data on all operational risk events, as well as for recording all incurred events in the operational risk database. The organizational part of the Bank of the Group member in charge of risk management monitors and reports on operational risks.

The Group performs measurement and / or assessment of operational risk through a quantitative and /or qualitative assessment of the identified operational risk. The Group members conduct measurement of operational risk exposure through event logging, and determining the profile of operational risks. The operational risk profile represents the Group's exposure to operational risk in accordance with the predefined processes by measuring the possible range, the importance to the business, and the frequency of events that can cause losses, by identifying the level of control that areas of business have against these risks and improvement measures.

The Group can’t eliminate all operational risks, but by introducing an appropriate control framework, monitoring and mitigating potential risks, it establishes a process for managing operational risk, the Group takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, implementation of adequate and a reliable information system and orientation to the project approach, whose implementation improves business practice and optimizes business processes.

4. RISK MANAGEMENT (continued)

4.6. Operational risk (continued)

Through reliable reporting on the implementation of measures to mitigate operational risks, the Group has established a monitoring system for activities undertaken by the Group members in order to reduce operational risks and preventive responses to emerging operational events. The Group assesses the risk of relying on third parties for performing certain activities related to business, based on a contract concluded with those persons that clearly define the terms, rights, obligations and responsibilities of the contracted parties.

For the purpose of smooth and continuous operation of all significant Group's processes and processes, as well as limitation of losses in emergencies, the Group members adopted the Business Continuity Plan, with the goal of restoring the recovery of the information technology system in case of termination of operations. The member banks of the Group have adopted the Disaster Recovery Plan.

4.7. Risks of investment

The risk of the Group's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Group's investment in a person who is not a person in the financial sector may be up to 10% of the Group's capital, whereby this investment implies an investment by which members of the Group acquire a holding or shares of a person other than a person in the financial sector. The Group's total investments in non-entities in the financial sector and in fixed assets and investment property of the Group may be up to 60% of the Group's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.8. Risk of exposure

The Group's large exposure to a single entity or a group of related parties, including entities related to the Group, is an exposure that exceeds 10% of the Group's capital.

In its business, the Group takes care of compliance with the regulatory defined exposure limits:

• Exposure to a single client or a group of related parties must not exceed 25% of the Group's capital;
• The sum of all large Group exposures must not exceed 400% of the Group's capital.

Defined limits of exposure to one client or a group of related parties also applies to clients related to the Group.

The Group's exposure to one entity or group of related parties, as well as the exposure to clients related to the Group, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.9. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Group is exposed, or the risk of the possibility of adverse effects on the Group's financial result and capital due to the inability of the Group members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

- Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Group to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;

- Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Group manages the country's risk at the level of individual placements and portfolio level. Measuring and controlling the exposure of an individual country's risk exposure to a country's risk is determined by the category of internal rating of the debtor country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Group's capital, depending on the country's internal rating category. The Group performs measurement and control of the exposure of the country risk portfolio based on the grouping of receivables according to the degree of risk of the borrower countries.

In order to adequately manage the country's risk, the Group defines the exposure limits individually by country of origin of the debtor.

4. RISK MANAGEMENT (continued)

4.10. Fair value of financial assets and liabilities

Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousand of RSD

	As of December 31, 2021					As of December 31, 2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets										
Cash and cash equivalents held with the Central Bank	82,055,482	82,055,482	82,055,482	-	-	80,045,107	80,045,107	80,045,107		
Loans and receivables from banks and other financial organisations	29,114,381	29,114.381	29,114,381	-	-	18,142,070	18,142,070	18,142,070		
Loans and receivables from clients	209,044,943	208,948,338			208,948,338	189,296,089	187,604,124	-	-	187,604,124
Other assets	5,430,723	5,430,723	5,430,723	-		6,216,270	6,216,270	6,216,270		
Securities held at amortized cost	934,484	934,484	-	-	934,484	842,240	842,240			842,240
Financial Liabilities										
Deposits and other liabilities to banks, other financial organisations and central bank	2,134,969	2,134,969	1,705,139	-	429,830	8,096,190	8,096,190	5,140,177	-	2,956,013
Deposits and other financial liabilities to clients	403,286,418	403,239,009	-	-	403,239,009	406,192,067	405,924,829	-	-	405,924,829
Other liabilities	4,142,443	4,142,443	-	-	4,142,443	3,882,393	3,882,393	-	-	3,882,393

The calculated fair value of loans and advances to customers, as well as deposits received is equal to the fair value estimated by NLB d.d. and at which they are recognized on the date of acquisition of the majority stake in the Bank. On the date of acquisition, the impairment of most of the financial assets that have the status of risk-free exposures was also recognized. The values in the table above are shown in accordance with the fair values of these positions estimated on the day of taking over the Parent Bank (December 31, 2020) and amortized respectively until December 31, 2021.

4. RISK MANAGEMENT (continued)

4.10. Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value

In thousands of RSD

	As of December 31, 2021				As of December 31, 2020			
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets at fair value through profit and loss in RSD	512,823	-	-	512,823	508,922	4,873,616	-	5,382,538
Financial assets at fair value through profit and loss in foreign currency	-	-	-	-	-	2,925,568	-	2,925,568
Financial assets at fair value through other comprehensive income in RSD	140,170	84,689,682	-	84,689,682	-	81,955,812	-	81,955,812
Financial assets at fair value through other comprehensive income in foreign currency	23,048,496	40,377,764	40,600	63,451,766	19,181,058	48,045,683	105,757	67,332,498
Total	**23,701,489**	**125,067,446**	**40,600**	**148,654,271**	**19,689,980**	**137,800,679**	**105,757**	**157,596,416**

Stage 1 comprises financial instruments with whom it can be traded on the international market and where there is an adequate price available or which are traded by the method of continuous trading, if the instruments are from the Belgrade Stock Exchange (bonds of the Republic of Serbia traded on the international market in EUR and USD, Republic of Slovenia, Republic of Ireland, USA, Raiffeisen Bank International), , while Stage 2 contains securities which fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market (RS bonds in RSD and EUR).
The fair value of assets for which no direct trading information is available is assigned to Stage 3 (municipal bonds).

4. RISK MANAGEMENT (continued)

4.11. Capital management

The Group has established a risk management system in accordance with the scope and structure of its business activities, and the objective of capital management is the smooth realization of the Group's business objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main goals of managing the capital are:

• Preservation of the minimum regulatory requirement (EUR 10 million);
• Maintenance of individual capital buffers;
• Respect of the minimum regulatory capital adequacy ratios increased for the combined capital buffer;
• Maintaining confidence in security and business stability;
• Realization of business and financial plans;
• supporting the expected growth in placements;
• Enabling the optimism of future sources of funds and their use;
• achieving dividend policy.

The regulatory capital of the Group is the sum of the Tier 1 capital (consisting of the Common Equity Tier 1 capital and additional Tier 1 capital) and Tier 2 capital, reduced for the deductible items. Capital adequacy ratios represent the ratio of capital of the Group (total, Tier 1 or Common Equity Tier 1) and the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries, settlement / delivery risk except on the basis of free delivery), market risks, operational risk, risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries of the banking Group shall be determined in accordance with the prescribed risk weight for all exposure classes. Risk exposure amount for operational risk is calculated by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

4. RISK MANAGEMENT (continued)

4.11. Capital management

Capital adequacy ratios

	In thousands of RSD Year ended December 31, 2021	2020
Tier 1 capital	66,071,468	70,902,630
Common Equity Tier 1 capital	65,697,958	70,529,120
Additional Tier 1 capital	373,510	373,510
Deductible items of capital	(713,172)	(1,881,099)
Capital	**65,358,296**	**69,021,531**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	194,363,632	199,051,603
Risk exposure amount for operational risk	34,534,805	36,826,475
Risk exposure amount for market risks	-	3,594,496
Capital adequacy ratio (min. 14.35%)	**28.55%**	**28.82%**
Tier 1 capital adequacy ratio (min. 12.35%)	**28.55%**	**28.82%**
Common Equity Tier 1 capital adequacy ratio (min. 10.85%)	**28.39%**	**28.67%**

During 2021, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively) .

By the Capital Management Strategy and Plan, the Group ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use at the banking group level, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2020, the Group calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

The Capital Management Plan, as part of the capital management system, includes:

• 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.

On a continuous basis, the Group conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

4. RISK MANAGEMENT (continued)

4.11. Capital management (continued)

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

- is based on identification and risk measurement;
- provides a comprehensive assessment and monitoring of the risks to which the banking Group is exposed or may be exposed;
- Provides adequate available internal capital in accordance with the risk profile of the banking Group;
- is involved in the banking Group management system and decision making;
- Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process at the banking group level include:

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- Calculation of stressed internal capital requirement for individual risks;
- Determining 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.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances, with the application of the concept of expected credit loss.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are valued at amortised cost are assessed for impairment in the manner described in accounting policy 3 (j).

The impairment of the placement aims ensure a reasonable, careful and timely determination of losses in order to protect the Group's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are only made when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, and which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

The Group assesses the impairment of receivables on a group and on an individual basis.

5. USE OF ASSESSMENT (continued)

Individual assessment

The Group assesses the impairment allowance for each individually significant placement with the default status, ie placements that are classified at stage 3 in accordance with IFRS 9. On this occasion, account is taken of the financial position of the loan beneficiary, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the 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 fulfilment of client's obligations towards the Group, a new assessment of the impairment of placements is made.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Objective evidence that indicates the need for impairment of placements is considered to be:

- 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-fulfilment of other contractual provisions;
- when the members of the Group , due to the financial difficulties of the borrower, substantially change the terms of repayment of receivables in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) and the like.

Evidence can be documented by the analysis of the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of clients collateral, reports of enforced collection and days of blockade, reports on loans in arrears and other information to which the Group has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Group recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Group on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

5. USE OF ASSESSMENT (continued)

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and which are not individually significant in default status and for placements for which impairment allowance calculated on individual assessment has not been determined, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Group estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the corporate sector and by rating groups by type of placements in the retail sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incurred credit loss in accordance with IAS 39, the principle of expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

Group-based impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), except in cases where there is a significant increase in credit risk in relation to the moment of initial recognition, when the credit loss assessment is carried out on the probability of default for the instrument's life span (stage 2 receivables).

By appreciating the specifics of the clients, migrations for corporate clients, micro businesses, retail clients by product types, financial institutions and exposure to countries are determined separately.

The impairment allowance reduces the gross amount of the placements and is recognized as an expense in the income statement.

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is carried out when it is estimated that there is enough certain expectation that an outflow of funds will be made to settle the contingent liability. The Group also determines the probable loss for unused commitments, for which there is not unconditional and without prior notice, possible cancelation the contracted obligation. When calculating provisions based on unused commitments, the Group uses a conversion factor (CCF) that adjusts the carrying amount of unused commitments.

5. USE OF ASSESSMENT (continued)

Determination of fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the well informed, willing parties in a transaction under market conditions.

The Group performs valuation of financial instruments by:

- Fair value through profit and loss
- Fair value through other comprehensive income, with the recognition of "recycling" or without recognition in the income statement.

Financial assets and liabilities classified at fair value through profit and loss are subsequently measured at the fair value without including the cost of sales or other expenses when the recognition is terminated. Gains / losses arising from the change in the fair value of these financial instruments, their dividend income, and exchange rate differences are recognized in the income statement. There is no test of the potential impairment of these financial instruments.

After initial recognition, equity instruments are subsequently measured depending on whether they have a quoted market price. Instruments of capital which have a quoted market price are measured at market value, and investments in equity instruments that do not have a quoted market price in an active market are measured using valuation techniques, combining more available approaches and techniques for measuring fair values.

Investments in equity instruments that are not held for trading and which are measured at fair value through other comprehensive income are subsequently measured at fair value excluding the cost of sales or other expenses in case of derecognition. With the exception of received dividends recognized in the income statement, all other related gains and losses, including a component of foreign exchange differences, are recognized in the other comprehensive income, through equity.

The amounts shown in the other comprehensive income cannot be subsequently transferred to the income statement, although cumulative gains or losses can be transferred within equity, to undistributed profits.

Investments in debt instruments that are valued at fair value through other comprehensive income are valued in the following way after initial recognition:

a. gains / losses from impairment, which are derived from the same methodology, which is also applied to financial assets measured at amortized cost, are recognized in the income statement;
b. gains / losses on exchange differences are recognized in the income statement;
c. interest income, calculated using the effective interest method, is recognized in the income statement;
d. gains / losses from changes in fair value are recognized through other comprehensive income;
e. in case of modification made, the gain / loss from modification is recognized in the income statement and
f. in case of derecognition, the cumulative gain / loss previously recognized through the other comprehensive income is reclassified from equity to the income statement, as adjustment due to reclassification.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

Financial derivatives are subsequently translated at market value. Market values of financial derivatives are obtained on the basis of various valuation techniques, including the discounting of cash flows. The change in the value of financial derivatives is accounted for in the balance sheet and income statement.

Changes in the fair value of financial liabilities for liabilities that are measured at fair value are made in the case of:

- a change in fair value that is a consequence of a change in its own credit risk of an obligation is reflected in the other comprehensive income, and
- the remaining amount of the change in the fair value of the liability is recorded in the income statement.

Financial liabilities held for trading and derivatives, after initial recognition and impairment, are valued at fair value.

The change in the fair value of a financial liability held for trading is included in income statement of the period in which it was incurred.

If the Group settles its obligations towards creditors and employees in cash, which is determined in relation to the price of the shares or has the option to determine between these two methods of settling the obligation, the valuation of such transactions is carried out in accordance with the relevant IFRS.

Concept of fair value

When measuring fair values, the Group identifies methods/techniques that need to maximize the use of observable inputs and to minimize the use of unobservable inputs.

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

The Group determines the fair value of financial instruments at the balance sheet date. Whenever possible, the Group performs measurement of fair value using the market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions at market conditions.

In the event that the market for financial instruments is not active, fair value is determined using methodology assessment. Estimation methodologies include transactions at market terms between the well informed, willing parties (if available), reference to the existing fair value of other instruments that are essentially the same, discounted cash flow analyses, and other alternative methods. The selected assessment methodology maximizes the use of market data, is based on the least possible extent on the Group-specific estimates, and includes all factors that market participants consider as determining for the price, in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

The best evidence of the fair value of a financial instrument in the initial recognition is the price achieved in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all the differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the individual facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-observable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when they are purchased, transferred or sold, or when the fair value becomes noticeable. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of the Bank and other counterparties, where relevant. Estimates of fair values based on assessment models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that the Group considers that third parties can take them into account when determining the transaction price.

Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments, based on Politics and Strategy risk management.

6. SEGMENT REPORTING

6.1. Reporting by strategic segments - members of the Group

The Parent bank monitors and discloses business segments through two model reports:

- Reporting by strategic segments - members of the Group (Note 6.1.) and
- Reporting by operational segments - business lines (Note 6.2.).

Information about the results of each reporting segment is shown below.

The Group has four members representing strategic organizational parts:

Komercijalna banka a.d Belgrade, Serbia, Parent bank	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Podgorica, Montenegro	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	It includes credit, deposit and guarantee operations, as well as the activities of carrying out payment transactions in the country and abroad, operations with securities and other financial instruments
KomBank INVEST a.d Belgrade UCITS Fund Management Company, Serbia	It includes investment fund management activities

Bearing in mind that in December 2021, the Komercijalna banka a.d. Banja Luka was sold, and in November 2021 Komercijalna banka a.d. Podgorica was merged with NLB a.d. Podgorica and thus at the end of 2021, the Group has, in addition to the Parent Bank, one subsidiary KomBank INVEST a.d. Belgrade and one associate NLB a.d. Podgorica.

The Parent bank monitors and discloses operations in strategic segments - the Group's members within its consolidated financial statements. The Group carries out most of its business on the territory of the Republic of Serbia. Subsidiaries are not material to the standalone financial report of the Parent bank.

As of December 31, 2021, the balance sheet sum of the Parent bank amounts to 90.96%of the total balance sheet sum of the consolidated balance sheet (2020: 90.98%) and the balance sum of KomBank INVEST amounts to 0.03%.

As of December 31, 2020, the balance sheet sum of Komercijalna banka ad Podgorica, amounts to 3.42% of total consolidated assets, Komercijalna banka ad Banja Luka 5.57% and KomBank INVEST 0.03 %.

The result of the strategic segment is used to measure business performance, since the management of the Parent bank believes that this information is most relevant for evaluating the results of a particular strategic segment in comparison with other legal entities operating in the listed activities in the local market.

6. SEGMENT REPORTING (continued)

6.1. Reporting by strategic segments - members of the Group (continued)

6.1.a. Reclassification of positions in the standalone financial statements of the Group members before consolidation

For the purposes of consolidation, and before the consolidation procedure, the reclassification of positions in the standalone financial statements of the members of the Group is carried out, which leads to the correction of the balance sheet amounts and the results in the profit and loss account set out in the statutory statements.

Reclassified financial statements represent initial balance sheet items that are subject to the consolidation.

As at December 31, 2021 the following reclassifications are made in the balance sheet and profit and loss accounts of the Group members:

Balance sheet

In thousands of RSD

Statutory balance sheet sum of KB Banja Luka	**79,148**
Outcome of differences – application the internal and regulatory credit risks methodology – impairment computing (negative effect)	(10,794)
Outcome of application the internal credit risks methodology - interest income for customers at impairment stage 3 is not recognized in the income statement by the regulator - termination of accounting	642
Elimination of income from sale of tangible assets	(1,956)
Reclassified balance sheet sum of KB Banja Luka	**67,040**

In the preparation the consolidation statements, mutual transactions were eliminated from the balance sheet in the amount of RSD 140,365 thousand (2020: RSD 7,578,111 thousand). Revenues in the amount of RSD 25,064 thousand (2020: RSD 92,069 thousand) and expenses in the same amount (2020: RSD 91,624 thousand) were eliminated from the profit or loss account.

6. SEGMENT REPORTING (continued)

6.1. Reporting by strategic segments - members of the Group (continued)

6.1.a. Reclassification of positions in the standalone financial statements of the Group members before consolidation (continued)

Standalone reclassified Balance sheet as of December 31, 2021

Standalone Balance sheets of Group's members were not reclassified.

Reclassified Income statement (before tax) as of December 31, 2021:

In thousands of RSD

KB Beograd	3,451,548
KB Podgorica	(602,908)
KB Banja Luka	69,737
KomBank INVEST	636
Aggregate reclassified unconsolidated profit or loss account (before tax)	**2,919,014**

6.1.b. Overview of intercompany transactions

Balance sheet as of December 31, 2021:

In thousands of RSD

Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
489,608,587	**140,365**	**489,468,222**
Cash / Payables	53	
Placements / Liabilities	312	
Equity shares / Capital	140,000	

Income Statement as of December 31, 2021:

In thousands of RSD

Collective unconsolidated profit in the Income statement (before tax)	Amount of consolidation of the income statement		Consolidated profit (before tax)
	income	expenses	
2,919,014	**1,897,858**	**2,233,713**	**2,583,160**
Interest	9,232	9,232	
Fees	15,488	15,488	
Other income/expenses	344	344	
Profit / (loss) from loss of control	253,623	2,208,649	
FX differences	1,619,171	-	

6. SEGMENT REPORTING (continued)

6.1. Reporting by strategic segments - members of the Group (continued)

6.1.b. Overview of intercompany transactions (continued)

In thousands of RSD

Consolidated profit (before tax)	**2,583,160**
Profit tax	(4,676)
Net loss on deferred taxes	199,109
Consolidated profit (after tax)	**2,777,593**

Profit and loss on deferred taxes

In the profit and loss statement as at December 31, 2021, the Group disclosed a net loss based on the effects of deferred taxes in the amount of RSD 199,109 thousand. The Parent bank disclosed a net profit on the same basis in the amount of RSD 182,315 thousand, KB Podgorica in the amount of RSD 15,790 thousand, KomBank INVEST net profit in the amount of RSD 289 thousand and KB Banja Luka in the amount of RSD 715 thousand.

Profit tax

The Parent bank does not have the option of performing tax consolidation due to the applicable regulations in the Republic of Serbia. The Group members' final amounts of liabilities based on profit tax are determined by the application of the tax rate on the tax base determined by local tax regulations and disclosed in individual notes with their annual statutory financial statements.

The disclosed profit tax at the Group level amounting to RSD 4,676 thousand refers to KB Podgorica RSD 1,261 thousand, KB Banja Luka in the amount of RSD 3,413 thousand and KomBank INVEST in the amount of RSD 2 thousand.

The Parent Bank has not stated income tax, due to the right to use the tax credit from previous years.

Balance sheet as of December 31, 2020

In thousands of RSD

	Aggregate unconsolidated balance sheet - adjusted	Balance sheet consolidation balance	Consolidated balance sheet - adjusted
	508,447,050	**7,578,111**	**500,868,939**
Cash / Payables		5,549	
Placements / Liabilities		2,091,674	
Equity shares / Capital		5,480,888	

Income Statement as of December 31, 2020

In thousands of RSD

	Cumulative non-consolidated profit in the Income Statement (before tax) - adjusted	Amount of consolidation of the income statement		Consolidated profit (before tax) - adjusted
		income	**expenses**	
	3,884,572	**92,069**	**91,624**	**3,884,127**
Interest		16,902	16,902	
Fees		8,997	8,997	
Other income/expenses		295	295	
Exchange rate differences(reclassified to equity)		65,875	65,430	

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group

6.1.c. Overview of the activities of Strategic Segments

Below is an overview of the activities of strategic segments from the consolidated balance sheet and the consolidated income statement:

A. BALANCE SHEET - CONSOLIDATED on December 31, 2021

In thousand RSD

	Komercijalna banka a.d., Beograd	KomBank INVEST a.d., Beograd	Total
ASSETS			
Cash and cash funds held with the central bank	82,055,481	-	82,055,481
Securities	149,588,755	155,264	149,744,019
Loans and receivables from banks and other financial organisations	29,114,381	16,320	29,130,701
Loans and receivables from clients	209,044,942	-	209,044,942
Investments in associates and joint ventures	1,479,000	-	1,479,000
Intangible assets	582,101	-	582,101
Property, plant and equipment	8,755,659	81	8,755,740
Investment property	2,610,531	-	2,610,531
Current tax assets	18,911	74	18,985
Deferred tax assets	509,242	2,773	512,015
Fixed assets held for sale and assets from discontinued operations	101,614	-	101,614
Other assets	5,430,413	2,680	5,433,093
Total assets	**489,291,030**	**177,192**	**489,468,222**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overview of the activities of Strategic Segments (continued)

A. BALANCE SHEET - CONSOLIDATED on December 31, 2021 (continued)

In thousands of RSD

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities due to bank, other financial institutions and the Central bank	2,134,916	-	2,134,916
Deposits and other financial liabilities to clients	403,286,418	-	403,286,418
Provisions	4,233,853	17,876	4,251,729
Other liabilities	4,142,442	1,010	4,143,452
Total liabilities	**413,797,629**	**18,886**	**413,816,515**
EQUITY			
Share capital and premium issue of shares	40,034,550	-	40,034,550
Profit	9,561,784	17,506	9,579,290
Reserves	26,037,325	542	26,037,867
Total equity	**75,633,659**	**18,048**	**75,651,707**
TOTAL LIABILITIES AND EQUITY	**489,431,288**	**36,934**	**489,468,222**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overview of the activities of Strategic Segments (continued)

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2020

In thousands of RSD

	Komercijalna banka a.d., Beograd adjusted	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total adjusted
ASSETS					
Cash and cash funds held at the Central bank	80,045,107	1,911,252	4,935,711	-	86,892,070
Securities	153,776,323	1,265,605	3,244,162	152,566	158,438,656
Loans and receivables from banks and other financial organisations	17,301,332	607,317	940,455	16,379	18,865,483
Loans and receivables from clients	189,296,089	12,204,666	17,932,872	-	219,433,627
Intangible assets	510,669	29,266	38,478	-	578,413
Property, plant and equipment	6,045,330	352,977	344,748	144	6,743,199
Investment property	2,393,183	77,366	248,134	-	2,718,683
Current tax assets	12,237	-	7,347	77	19,661
Deferred tax assets	-	-	-	2,484	2,484
Fixed assets held for sale and assets from discontinued operations	130,426	138,179	102,058	-	370,663
Other assets	6,215,954	502,191	85,671	2,184	6,806,000
Total assets	**455,726,650**	**17,088,819**	**27,879,636**	**173,834**	**500,868,939**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overview of the activities of Strategic Segments (continued)

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2020 (continued)

In thousands of RSD

LIABILITIES AND EQUITY	Komercijalna banka a.d., Beograd korigovano	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Ukupno korigovano
Deposits and other liabilities due to bank, other financial institutions and the Central bank	3,733,731	286,632	4,075,827	-	8,096,190
Deposits and other financial liabilities to clients	372,699,401	14,459,196	19,033,470	-	406,192,067
Provisions	2,528,051	110,585	42,251	15,459	2,696,346
Currents tax liabilities	-	502	1,577	-	2,079
Deferred tax liabilities	147,400	8,332	20,841	-	176,573
Other liabilities	4,975,476	178,329	415,181	892	5,569,878
Total liabilities	**384,084,059**	**15,043,576**	**23,589,147**	**16,351**	**422,733,133**
EQUITY					
Share capital and issue share premium	40,034,550	-	-	-	40,034,550
Accumulated result	4,229,514	(495,652)	373,793	16,639	4,124,294
Reserves	33,286,592	462,246	227,233	821	33,976,892
Non-controlling interests	-	-	70	-	70
Total equity	**77,550,656**	**(33,406)**	**601,096**	**17,460**	**78,135,806**
TOTAL LIABILITIES AND EQUITY	**461,634,715**	**15,010,170**	**24,190,243**	**33,811**	**500,868,939**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overview of the activities of Strategic Segments (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2021

In thousands of RSD

	Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Interest income	13,094,749	610,633	716,714	488	14,422,584
Interest expenses	(958,313)	(93,697)	(205,538)	-	(1,257,548)
Net interest gains	**12,136,436**	**516,936**	**511,176**	**488**	**13,165,036**
Income from fees and commissions	7,632,534	210,005	270,594	27,538	8,140,671
Expenses from fees and commissions	(1,909,661)	(85,559)	(67,578)	(269)	(2,063,067)
Net gains from fees and commissions	**5,722,873**	**124,446**	**203,016**	**27,269**	**6,077,604**
Net gain from change in fair value of financial instruments	4,823	-	-	1,949	6,772
Net gain on derecognition of financial instruments measured at fair value	197,243	-	-	14	197,257
Net income/expense from FX rates and the outcome of currency clause	1,672,240	14,180	2,276	(7)	1,688,689
Net gain/loss on impairment of financial assets not measured at fair value through profit or loss	15,772	(475,545)	(15,585)	-	(475,358)
Net loss on derecognition of investments in associates and joint ventures	(1,954,463)	-	-	-	(1,954,463)
Other operating income	210,846	6,499	12,798	-	230,143
Total operating income	**18,005,772**	**186,516**	**713,681**	**29,713**	**18,935,682**
Salaries, salary compensation and other personal expenses	(4,961,166)	(404,856)	(302,329)	(16,829)	(5,685,180)
Depreciation costs	(912,825)	(77,981)	(94,488)	(63)	(1,085,357)
Other income	587,010	34,480	27,646	11	649,147
Other expenses	(9,626,605)	(329,316)	(265,813)	(9,398)	(10,231,132)
Profit / loss before tax	**3,092,186**	**(591,157)**	**78,697**	**3,434**	**2,583,160**
Income tax	-	(1,261)	(3,413)	(2)	(4,676)
Profit/Loss on deferred taxes	182,315	15,790	715	289	199,109
Profit / loss after tax	**3,274,501**	**(576,628)**	**75,999**	**3,721**	**2,777,593**

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group (continued)

6.1.c. Overview of the activities of Strategic Segments (continued)

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2020

In thousands of RSD

	Komercijalna banka a.d. Beograd adjusted	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total adjusted
Interest income	13,185,934	724,595	820,920	536	14,731,985
Interest expenses	(1,130,408)	(116,409)	(197,145)	-	(1,443,962)
Net interest gains	**12,055,526**	**608,186**	**623,775**	**536**	**13,288,023**
Income from fees and commissions	6,688,682	225,244	264,867	26,692	7,205,485
Expenses from fees and commissions	(1,820,743)	(46,617)	(71,331)	(272)	(1,938,963)
Net gains from fees and commissions	**4,867,939**	**178,627**	**193,536**	**26,420**	**5,266,522**
Net gain from change in fair value of financial instruments	95,629	-	-	2,417	98,046
Net gain on derecognition of financial instruments measured at fair value	157,796	3,068	13,526	9	174,399
Net income/expense from FX rates and the outcome of currency clause	(61,471)	74,026	5,426	(1)	17,980
Net gain/loss on impairment of financial assets not measured at fair value through profit or loss	(1,089,366)	(94,687)	(80,183)	-	(1,264,236)
Other operating income	211,094	5,468	10,535	-	227,097
Total operating income	**16,237,147**	**774,688**	**766,615**	**29,381**	**17,807,831**
Salaries, salary compensation and other personal expenses	(5,819,946)	(288,339)	(368,040)	(15,465)	(6,491,790)
Depreciation costs	(938,963)	(89,651)	(107,505)	(49)	(1,136,168)
Other income	889,752	29,789	32,384	12	951,937
Other expenses	(6,674,208)	(297,400)	(265,220)	(10,855)	(7,247,683)
Profit / loss before tax	**3,693,782**	**129,087**	**58,234**	**3,024**	**3,884,127**
Income tax	-	(502)	(6,806)	(1)	(7,309)
Profit/Loss on deferred taxes	(1,264,085)	(5,814)	(161)	426	(1,269,634)
Profit / loss after tax	**2,429,697**	**122,771**	**51,267**	**3,449**	**2,607,184**

Within the stated consolidated profit, profit attributable to non-controlling interest is RSD 1 thousands.

6. SEGMENT REPORTING (continued)

6.2. Operational segments report - business lines

The Parent bank has three operating segments:

- Transactions with legal entities Parent bank - Includes loans, deposits and other transactions with clients to legal entities other than banks,
- Retail banking of the parent bank - Includes loans, deposits and other transactions with clients to individuals, micro clients, entrepreneurs and farmers, and
- Investment banking and interbank banking of the Parent Bank - Includes transactions with securities and other financial instruments, as well as transactions with banks.

Since the associate and subsidiary of the Group operate as independent entities in their local markets and that the results thus obtained are used to measure their business performance, that the business of individual members of the Group as strategic segments is shown under Note 6.1, and that the Parent bank represents 99.96% of the consolidated balance sheet, for reporting purposes by operational segments at the Group level, associate and subsidiary of the Group are shown under a one segment.

When considering the profitability / results of each segment of the Parent Bank, in addition to the income and expenses generated from dealing with clients, they also include a portion of the net income / expenses that the Parent Bank reported from the transactions with other members.

Revenues from collected written-off receivables in the total amount of RSD 2,566,904 thousand, provisions for severance pay under parent bank programs in the total amount of RSD 1,610,928 thousand, as well as net provisions for legal costs in the total amount of RSD 1,441,477 thousand, had a significant impact on the Group's operations in 2021.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the segments).

Each business segment is indebted to direct operational costs that relate to that segment as well as part of the indirect operating costs (the allocation of these costs to the segments is made using the appropriate keys used to allocate the cost of cost centers to profit centers).

Direct operating expenses at the Group level amount to RSD 9,012,263 thousand and account for 67% of the total operating costs. Direct operating costs mostly comprise costs that are directly related to segment segments (salaries, rental costs, depreciation costs, marketing and other costs), and to a lesser extent they are also costs that are allocated to segments based on a management decision.

The segment of retail banking of the Parent bank refers to the amount of RSD 6,079,203 thousand of direct costs (67% of the total direct costs of the Group), which is a consequence of the large business network and the number of employees involving in retail banking.

Under the aforementioned, the Group incurred profit before tax in the business year 2021 in the amount of RSD 2,583,160 thousand.

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2021 is shown below:

In thousands of RSD

As of December 31, 2021	Retail banking of the Parent Bank	Corporate banking of the Parent Bank	Investment banking and interbank operations of the Parent Bank	Other operations of the Parent Bank	Subsidiaries and associates	Adjustments and consolidation	Total Group (consolidated)
Revenues and expenses							
Interest income	7,052,260	2,167,413	3,875,076	-	1,327,835	-	14,422,584
Interest expenses	(667,468)	(46,131)	(220,575)	(24,139)	(299,235)	-	(1,257,548)
Net interest	6,384,792	2,121,282	3,654,501	(24,139)	1,028,600	-	13,165,036
Net interest from related party transactions	-	-	8,673	-	(8,673)	-	-
Net fees	4,506,477	854,181	362,215	-	354,731	-	6,077,604
Net fees from related party transactions	-	-	14,491	-	(14,491)	-	-
Result before impairment	10,891,269	2,975,463	4,039,880	(24,139)	1,360,167	-	19,242,640
Net impairment income / expenses	(923,178)	471,169	467,781	-	(491,130)	-	(475,358)
Result before operating costs	9,968,091	3,446,632	4,507,661	(24,139)	869,037	-	18,767,282
Direct operating costs	(6,079,203)	(1,741,152)	(217,328)	-	(974,580)	-	(9,012,263)
Net income/expenses from exchange rate differences	-	-	53,070	-	16,449	1,619,170	1,688,689
Net other income and expenses	(2,096,554)	(350,930)	(127,306)	-	26,851	(1,966,860)	(4,514,799)
Net other operating income from related party transactions	115	115	115	-	(345)	-	-
Result before intangible costs	1,792,449	1,354,665	4,216,212	(24,139)	(62,588)	(347,690)	6,928,909
Intangible costs	(2,214,135)	(1,360,391)	(301,277)	-	(469,946)	-	(4,345,749)
Result before tax	**(421,686)**	**(5,726)**	**3,914,935**	**(24,139)**	**(532,534)**	**(347,690)**	**2,583,160**

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

In thousands of RSD

As of December 31, 2021	Retail banking of the Parent Bank	Corporate banking of the Parent Bank	Investment banking and interbank operations of the Parent Bank	Other operations of the Parent Bank	Subsidiaries and associates	Adjustments and consolidation	Total Group (consolidated)
Assets per segments							
Cash and cash equivalents	-	-	82,055,481	-	-	-	82,055,481
Cash from related party transactions	-	-	-	-	53	(53)	-
Loans and receivables with banks	-	-	29,114,381	-	16,320	-	29,130,701
Loans and receivables with banks From related party transactions	-	-	841,324	-	-	-	-
Loans and receivables to clients	119,203,834	89,841,108	-	-	-	-	209,044,942
Securities	-	-	149,588,755	-	155,264	-	149,744,019
Investments in associates and subsidiaries	-	-	1,628,063	-	-	(149,063)	1,479,000
Other	-	-	-	18,008,472	5,607	-	18,014,079
Other from related party transactions	-	-	-	311	-	(311)	-
	119,203,834	**89,841,108**	**262,386,680**	**18,008,783**	**177,244**	**(149,427)**	**489,468,222**
Liabilities per segments							
Liabilities to banks	-	-	2,134,916	-	-	-	2,134,916
Liabilities to banks from related party transactions	-	-	53	-	-	(53)	-
Liabilities to customers	343,567,750	48,698,634	11,020,034	-	-	-	403,286,418
Other	-	-	-	8,376,296	18,885	-	8,395,181
Other from related party transactions	-	-	-	-	311	(311)	-
	343,567,750	**48,698,634**	**13,155,003**	**8,376,296**	**19,196**	**(364)**	**413,816,515**

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2020 is shown below:

In thousands of RSD

As of December 31, 2020	Retail banking of the Parent Bank	Corporate banking of the Parent Bank	Investment banking and interbank operations of the Parent Bank	Other operations of the Parent Bank	Subsidiaries and associates	Adjustments and consolidation	Total Group (consolidated)
Income and expenses							
Interest incomes	6,904,573	2,151,235	4,130,126	-	1,546,051	-	14,731,985
Interest expenses	(772,562)	(170,956)	(171,116)	(15,774)	(313,554)	-	(1,443,962)
Net interest gains	6,132,011	1,980,279	3,959,010	(15,774)	1,232,497	-	13,288,023
Net interest from related party transactions	-	-	13,764	-	(13,764)	-	-
Net fees	3,627,660	738,724	501,555	-	398,583	-	5,266,522
Net fees from related party transactions	-	-	7,469	-	(7,469)	-	-
Profit before impairment	9,759,671	2,719,003	4,481,798	(15,774)	1,609,847	-	18,554,545
Net impairment income / expenses	(186,045)	(903,135)	(186)	-	(174,870)	-	(1,264,236)
Impairment from related party transactions	-	-	17,334	-	1,308	(18,642)	-
Result before operating costs	9,573,626	1,815,868	4,498,946	(15,774)	1,436,285	(18,642)	17,290,309
Direct operating costs	(5,822,469)	(1,832,875)	(216,522)	-	(965,231)	-	(8,837,097)
Net exchange rate gain/loss	-	-	(61,471)	-	79,451	-	17,980
Net exchange difference from related party transactions	-	-	65,875	-	(65,430)	(445)	-
Net other income/expenses	(1,288,210)	529,337	152,079	-	59,216	-	(547,578)
Net other income/expenses from related party transactions	98	98	98	-	(294)	-	-
Profit before indirect operating expenses	2,463,045	512,428	4,439,005	(15,774)	543,997	(19,087)	7,923,614
Intangible expenses	(2,027,685)	(1,286,221)	(286,279)	-	(439,302)	-	(4,039,487)
Result before tax	**435,360**	**(773,793)**	**4,152,726**	**(15,774)**	**104,695**	**(19,087)**	**3,884,127**

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

In thousands of RSD

As of December	Retail banking of the Parent Bank	Corporate banking of the Parent Bank	Investment banking and interbank operations of the Parent Bank	Other operations of the Parent Bank	Subsidiaries and associates	Adjustments and consolidation	Total Group (consolidated)
Assets per segment							
Cash and cash equivalents	-	-	80,045,107	-	6,846,952	11	86,892,070
Cash from related party transactions	-	-	-	-	5,549	(5,549)	-
Due from banks	-	-	17,300,746	-	1,562,936	1,801	18,865,483
Due from banks from related party transactions	-	-	841,324	-	1,250,035	(2,091,359)	-
Due from customers	109,884,102	79,411,987	-	-	30,137,538	-	219,433,627
Investment securities	-	-	153,776,323	-	4,479,827	182,506	158,438,656
Investment in subsidiaries	-	-	3,433,697	-	-	(3,433,697)	-
Other	-	-	-	14,734,122	2,504,981	-	17,239,103
Other from related party transactions	-	-	-	315	-	(315)	-
	109,884,102	**79,411,987**	**255,397,197**	**14,734,437**	**46,787,818**	**(5,346,602)**	**500,868,939**
Liabilities per segment							
Liabilities to banks	-	-	3,733,730	-	4,362,460	-	8,096,190
Liabilities to banks from related parties transactions	-	-	1,255,585	-	841,324	(2,096,909)	-
Liabilities to customers	310,252,041	47,903,374	14,543,986	-	33,492,666	-	406,192,067
Other	-	-	-	7,652,144	793,949	(1,217)	8,444,876
Other from related parties transaction	-	-	-	-	315	(315)	-
	310,252,041	**47,903,374**	**19,533,301**	**7,652,144**	**39,490,714**	**(2,098,441)**	**422,733,133**

7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUE

The methodology and assumptions used to calculate fair (fair) values for those financial assets and liabilities that are not recorded at fair value in the financial statements are as follows:

(i) The assets and liabilities in which the present value in books is approximately equal to the fair value

With financial assets and liabilities that are highly liquid and with a short-term maturity (up to one year), it is assumed that the present book value is approximately equal to fair value. This assumption is also used in demand deposits, savings deposits with no specified maturity and all financial instruments with a variable interest rate.

(ii) Instruments with a fixed interest rate

The fair value of financial assets and liabilities with fixed interest rates, carried at amortized cost, is estimated by comparing market interest rates at the moment of initial recognition with current market interest rates for financial instruments of similar characteristics. The estimated fair value of assets and liabilities with a fixed interest rate is to a large extent corresponds to the carrying amount, given that the agreed interest rates do not deviate from the market rates. Members of the Group do not have materially significant deviations on this basis.

8. NET INTEREST INCOME / (EXPENSES)

Net interest income / (expenses) consist of:

		In thousands of RSD
	Year ended December 31,	
Income from:	**2021**	**2020**
Banks and REPO placements	56,561	63,848
Clients	10,427,444	10,393,677
Central Bank (liquid assets and required reserves deposits)	28,635	100,519
Securities stated at fair value through profit or loss	35,541	-
Securities not stated at fair value through profit or loss	3,874,176	4,173,793
Based on the leasing contract – derecognition	227	148
Interest income	**14,422,584**	**14,731,985**
Expenses from:		
Deposits and other liabilities to banks and other financial oragnisation	(160,989)	(118,948)
Deposits to customers	(1,013,380)	(1,255,990)
Received loans	(38,536)	(41,590)
Securities not stated at fair value through profit or loss	(11,829)	-
Leases contracts	(23,213)	(27,434)
Actuarial computing	(9,601)	-
Interest costs	**(1,257,548)**	**(1,443,962)**
Net interest income	**13,165,036**	**13,288,023**

All interest income and expense shown in the table above are computed by effective interest method, except those stated at fair value through profit or loss (computed by agreed interest rate), leases agreements (by incremental borrowing rates) and those arose from actuarial calculation (computed by discount rate in accordance with IAS 19).

9. NET INCOME / (EXPENSES) FROM THE FEES AND COMMISSIONS

Net gains from fees and commissions / (expenses) consist of:

In thousands of RSD
Year ended December 31,

	2021	2020
Income in RSD		
Fees from payment services	3,728,064	3,317,831
Fees for granted loans and guarantees	150,833	122,556
Fees for purchase of foreign currency	602,984	551,327
Fees for brokerage and custody services	32,117	26,004
Card payment fees	2,204,650	1,878,545
Fees based on inquiries in the Credit Bureau	62,578	50,928
Fees and commissions on other banking services	557,646	497,324
	7,338,872	**6,444,515**
Revenues in foreign currency		
Fees for payment services	353,474	356,028
Fees for granted loans and guarantees	46,516	52,962
Fees for brokerage and custody services	41,761	33,264
Card payment fees	278,662	229,823
Fees and commissions on other banking services	81,386	88,893
	801,799	**760,970**
	8,140,671	**7,205,485**
Expenses in RSD		
Fees for payment services	(235,299)	(167,750)
Foreign currency sale and purchase fees	(15,828)	(31,696)
Card payment fees	(572,276)	(437,974)
Credit Bureau fees	(56,595)	(47,893)
Fees and commissions on other banking services	(60,622)	(220,054)
	(940,620)	**(905,367)**
Expenses in foreign currency		
Fees for payment services	(134,364)	(144,936)
Card payment fees	(836,906)	(797,297)
Fees and commissions on other banking services	(151,177)	(91,363)
	(1,122,447)	**(1,033,596)**
	(2,063,067)	**(1,938,963)**
Net fee and commission income	**6,077,604**	**5,266,522**

10. NET GAINS FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains from changes in fair value of financial instruments:

	In thousands of RSD Year ended December 31, 2021	2020
Gains on the fair value adjustment of securities – investment units	6,829	7,339
Revenue from the change in the fair value of securities – treasury bills and bonds of the Republic of Serbia and other financial instruments	-	90,707
Total revenues	**6,829**	**98,046**
Expenses from the change in the fair value of derivatives held for trading - SWAP		-
Losses on the fair value adjustment of securities – investment units	(57)	-
Losses on the changes in value of securities - bonds		-
Total expenses	**(57)**	**-**
Net trading gain	**6,772**	**98,046**

11. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Net gains from derecognition of the financial instruments measured at fair value:

	In thousands of RSD Year ended December 31, 2021	2020
Gains arising from the derecognition of financial instruments valued at fair value through other comprehensive income	163,816	87,372
Gains arising from the derecognition of financial instruments valued at fair value through income statement	39,053	122,016
Gains on derecognition of derivatives valued at fair value through income statement - FORWARD	-	4,537
Losses on derecognition of financial instruments measured at fair value through other results	(348)	-
Losses arising from derecognition of derivatives valued at fair value through profit and loss – FORWARD	-	(202)
Losses arising from the derecognition of financial instruments valued at fair value through profit and loss	(5,264)	(39,324)
Net gain	**197,257**	**174,399**

11. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

Gains arising from the derecognition of financial instruments valued at fair value through other comprehensive income in the amount of RSD 168,816 thousand relate to the bonds of the Republic of Serbia in the foreign currency.

Gains arising from the derecognition of securities at fair value through income statement in the amount of RSD 39,053 thousand relate to bonds of the Republic of Serbia in the amount of RSD 26,912 thousand, and bonds of the Republic of Srpska in foreign currency in the amount of RSD 10,019 thousand, bonds of foreign companies in the amount of RSD 286 thousand and investment units in RSD in the amount of 1,836 thousand.

Losses on derecognition of securities and other placements at fair value through profit or loss in the amount of RSD 5,264 thousand relate to: bonds of the Republic of Serbia in RSD in the amount of RSD 4,489 thousand and bonds of the Republic of Serbia in foreign currency in the amount of RSD 775 thousand.

12. NET EXCHANGE RATE GAINS / (LOSSES) AND EFFECTS OF AGREED CURRENCY CLAUSE

	In thousands of RSD Year ended December 31, 2021	2020
Positive currency clause effect - corporate clients	91,548	150,499
Positive currency clause effect - value adjustment of securities	40	191
Foreign exchange gains - value adjustment of liabilities	62	220
Positive currency clause effect - leasing contract	335	986
Positive currency clause effect	6,165,209	5,017,741
Total gains	**6,257,194**	**5,169,637**
Negative currency clause effect - corporate clients	(76,206)	(163,508)
Negative currency clause effect - value adjustment of securities	(40)	(211)
Foreign exchange losses – value adjustment of liabilities	(107)	(203)
Negative currency clause effect – leases agreements	(412)	(895)
Negative currency clause effect	(4,491,740)	(4,986,840)
Total losses	**(4,568,505)**	**(5,151,657)**
Net gains	**1,688,689**	**17,980**

13. NET INCOME (LOSS) FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net impairment charges relate to:

	In thousands of RSD Year ended December 31, 2021	2020
Impairment allowance of financial assets measured at amortised cost	(9,496,962)	(4,882,682)
Provisions for off-balance sheet items	(431,459)	(250,361)
Impairment allowance of direct write-off of placements	(8,895)	(815)
Impairment allowance for debt securities measured through other comprehensive income	(418,920)	(73,896)
Losses arising from the modification of financial instruments	-	(342,435)
Reversal of impairment allowance of financial assets valued at amortised cost	6,748,516	3,631,798
Reversal of provisions for off-balance sheet items	431,585	211,244
Income from collection of previously written-off receivables	2,566,904	396,134
Reversal of allowance for debt securities measured through other comprehensive income	133,873	46,680
Revenues from modification of financial instruments	-	97
Total	**(475,358)**	**(1,264,236)**

In 2021, collected written-off receivables amount to RSD 2,566,904 thousand. The major portion refers to the collection of receivables from off-balance sheet items previously written-off through transferring figure from the items of balance sheet to the off-balance sheet items, of which RSD 166,839 thousand are from collection of loans placed to citizens, and the remaining amount of RSD 2,400,065 thousand is collection of corporate loans.

By the date of issue of these financial statements the Group did not make materially significant collections from impaired placements that would affect the reversal of impairment.

Effects on credit risk of debt securities in the amount of net expenses of RSD 295,268 thousand The parent bank recognized the figure within equity losses on debt instruments (expenses of debt securities at fair value through other result in the amount of RSD 405,599 thousand and income on the same basis in the amount of RSD 110,331 thousand). These items are excluded from the structure of the table of changes in impairment allowance account and off-balance sheet provisions.

13. NET INCOME (LOSS) FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

MOVEMENTS ON IMPAIRMENT ALLOWANCE ACCOUNTS AND PROVISION FOR OFF-BALANCE SHEET ITEMS

	Loans and receivables due from banks (Note 23.2)	Loans and receivables from clients (Note 24.2)	Securities - local government and corporate bonds, (Note 22)	Investments in associates and joint ventures (Note 25)	Investments – subsidiaries	Other assets (Note 31)	Off-balance sheet liabilities (Note 34)	Total
Balance as at January 1, 2021	**4,291**	**12,188,217**	**4,213**	**-**	**-**	**2,921,895**	**249,508**	**15,368,124**
New impairment allowance	52,463	9,011,042	15,735	-	-	417,722	431,459	9,928,421
Decrease in impairment allowance	(34,801)	(5,693,193)	(11,707)	(20,383)	(760,221)****	(228,211)	(431,585)	(7,180,101)
Foreign exchange differences	138	33,368	1		-	1,721	(2)	35,226
Permanent write-offs	-	(5,510,592)	-	-	-	(16,322)	-	(5,526,914)
Effect of change within Group	(1,190)	(644,202)	-	-	2,047,191	(1,013,439)	(40,560)	347,800
Other changes	-	(255,645)*	-	898,593**	(1,286,970)**	(991,575)***	(1)	(1,635,598)
Balance as of December 31, 2021	**20,901**	**9,128,995**	**8,242**	**878,210**	**-**	**1,091,791**	**208,819**	**11,336,958**

** effect of recognizing interest income on impaired loans by applying an alternative concept of IRC methods related to netting interest income and impairment expenses*
*** transfer of impairment of investments in subsidiaries to associates in the amount of RSD 898,593 thousand and sale of subsidiaries in the amount of RSD 388,377 thousand*
**** major portion pertain to Parent Bank - cancellation of the adjustment from impairment of assets acquired through collection of receivables and recording on the basic account*
*****decrease in impairment arose from investment in Komercijalna Banka a.d. Banja Luka*

In 2021, the Bank increased net expenses from impairment of placements at amortized cost, off-balance provisions in total amount of RSD 2,748,320 thousand.

Among other changes on the impairment accounts and provisions the amount of RSD 5,525,203 thousand relates to permanent write-off that the Bank carried out in 2021, i.e. transfer from on-balance to off-balance records on the basis of the decisions of the NBS of the accounting write-off.

14. NET GAINS / (LOSSES) FROM DERECOGNITION OF INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

In thousands of RSD

	Year ended December 31, 2021	2020
Loss from derecognition of investments in subsidiaries	(1,954,463)	-
Net loss	**(1.954.463)**	**-**

The stated loss refers to the effects of derecognition of investments in subsidiaries (link to Note 36), adjusted for revaluation reserves from debt securities..

15. OTHER OPERATING INCOME

	In thousands of RSD Year ended December 31, 2021	2020
Other income from operations	211,478	214,999
Revenues from dividends and shares	18,667	12,098
Net income	**230,145**	**227,097**

In the other operating income from operations in the amount of RSD 211,476 thousand, the most significant amounts relate to revenue of Parent bank from lease of properties, including advances received for rental in the amount of RSD 108,613 thousand and refunds of court costs and utility costs in the amount of RSD 62,250 thousands, revenues from charged costs for the use of business mobile phones upon employee authorization and the cost of using business vehicles for private purposes in the amount of RSD 16,734 thousand.

During 2021, the Parent Bank received dividends from other participations and shares in amount of RSD 18,667 thousand (2020: RSD 12,098 thousand), which form part of the position of Other income, and dividends from shares in Dunav Osiguranje ADO of RSD 9,425 thousand, VISA Inc. in the amount of RSD 7,140 thousand and MasterCard in the amount of RSD 2,102 thousand.

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Costs of salaries, salary compensation and other personal expenses consist of:

	In thousands of RSD Year ended December 31, 2021	2020
Net salaries	3,125,944	3,034,771
Net benefits	542,285	482,174
Payroll taxes	445,246	430,752
Payroll contributions	986,214	1,008,491
Considerations paid to seasonal and temporary staff	9,380	1,454
Provisions for retirement benefits – net	(92,933)	104,231
Other personal expenses	669,044	1,429,917
Total	**5,685,180**	**6,491,790**

Salaries, benefits and other personal expenses in the amount of RSD 5,685,180 thousand are lower by RSD 806,610 thousand or 12.43% compared to the same period last year. Other personal expenses are mostly related to annual bonuses to employees.

17. DEPRECIATION COSTS

	In thousands of RSD Year ended December 31, 2021	2020
Amortization costs – intangible assets (Note 26.2)	260,343	257,950
Depreciation costs – property and equipment (Note 27.2)	364,454	399,427
Depreciation costs – investment property (Note 28.1)	10,209	12,482
Depreciation costs – right of use assets (Note 27.2)	450,351	466,309
Total	**1,085,357**	**1,136,168**

18. OTHER INCOME

Other income consists of:

	In thousands of RSD Year ended December 31, 2021	2020
Income from reversal of unused provisions for litigations (Note 33.)	74,459	790,393
Gains on sale of fixed assets and assets held for sale	36,787	2,159
Income from sale of real estate acquired through collection of receivables	127,828	-
Income from decrease of liabilities	2,268	3,733
Income from changes in the value of investment property (Note 28.1)	107,537	30,335
Income from changes in the value of assets held for sale	17,002	-
Income from changes in the value of assets acquired through the collection of receivables	112,014	-
Surpluses	-	308
Other income	171,252	125,009
Total	**649,147**	**951,937**

Income from changes in the value of investment property in the amount of 107,537 thousand dinars relate to the recording of positive outcomes of valuations of investment property in accordance with the amended accounting policy for subsequent valuation of investment property of Parent Bank.

19. OTHER EXPENSES

Other expenses include:

	In thousands of RSD Year ended December 31, 2021	2020
Cost of materials	343,030	346,506
Cost of production services	1,887,204	1,399,802
Non-material costs (without taxes and contributions)	3,311,041	2,670,668
Tax costs	190,170	184,251
Contributions costs	726,211	732,828
Other operating costs	34,986	18,507
Other expenses	519,980	408,279
Losses from sales of PP&E and intangible assets	-	-
Losses from disposals and write-offs of PP&E, intangible assets and inventories	12,377	705
Expenses from value changes of investment property	40,620	463,082
Expenses from value changes of assets held for sale	6,015	10,293
Expenses from value changes of assets acquired through collection of receivables	32,634	-
Expenses on provisions for litigation (Note 33)	1,515,936	1,012,762
Expenses from provisions for severance pay acc. to voluntary severance package (Note 33)	1,610,928	-
Total	**10,231,132**	**7,247,683**

19. OTHER EXPENSES (continued)

a) Other expenses

Within the position of other expenditures in the amount of RSD 498,554 thousand, among others the following are recorded expenditures arising from paid invoices of insurance companies for life insurance policies of clients in favour of the Bank in the amount of RSD 249,870 thousand, and whose payment was covered by the Bank. The specified policies are used as collateral for loans granted to individuals. Additionally, this position also includes expenditures related to insurance policies for users of current account sets and travel insurance international payment cards in the amount of RSD 23,033 thousand.

b) Provision for legal costs

Expenses arising from provisions for legal costs totalling to RSD 1,492,830 thousand (Note 33) are result of increased expenditures for 17,733 new cases during the year 2021, and increase provisions for active cases from previous years.

c) Expenses arising from provisions for severance pay accor. to voluntary severance package

Expenses arising from provisions for severance pay acc. to voluntary severance package in the amount of RSD 1,610,928 thousand (Note 32) relate to the recognition of provisions for reorganization costs made on the basis of the Bank's Voluntary Severance Package adopted by the Parent Bank.

20. INCOME TAX – current tax and deferred tax

The parent bank does not have the possibility to perform tax consolidation on the basis of applicable regulations in the Republic of Serbia. The final amounts of income tax liabilities are determined by the Group members by applying the tax rate to the tax base determined by local tax regulations and disclosed in individual notes to their annual statutory financial statements.

Tax rates for the year 2021 are:

Serbia	15%
Montenegro	9%
Bosnia and Hercegovina	10%

Components of income taxes as of December 31 were as follows:

	In thousands of RSD Year ended December 31, 2021	2020
Tax expense for period	(7,676)	(7,309)
Gains from deferred taxes	373,225	122,101
Losses from deferred taxes	(174,116)	(1,391,735)
Total	**194,433**	**(1,276,943)**

Due to the impossibility of tax consolidation, the components of income tax are disclosed separately as follows:

20.1. Parent Bank

20.1.1. Components of income taxes as of December 31 were as follows:

	In thousands of RSD Year ended December 31, 2021	2020
Gains from deferred taxes	348,040	120,049
Losses from deferred taxes	(165,725)	(1,384,134)
Total	**182,315**	**(1,264,085)**

Upon submitted tax return and tax balance for 2019, the Bank paid an advance income tax for 2020, until the submission of the tax balance for 2020. After the submission of the tax return and the tax balance for 2020 on June 18, 2021, and bearing in mind that the Bank for 2020 has no income tax duty remained, the Bank overpaid the amount. Input taxes can be used for future periods, a request for a refund can be submitted or the amount will be used to cover other tax liabilities. The bank paid RSD 18,911 thousand in advance, as shown in the account of receivables for overpaid taxes on December 31, 2021.

20. INCOME TAX (continued)

20.1. Parent Bank (continued)

20.1.2. Reconciliation of the effective tax rate is presented in the table below:

In thousands of RSD

	2021	2021	2020	2021
Profit for the year before taxes		**3,463,384**		**4,192,846**
Tax calculated using the local income tax rate	15%	519,508	15%	628,927
Expenses not recognized for tax purposes	1.73%	60,036	3.64%	152,443
Tax effects of the net capital losses /gains	-0.17%	(5,875)	-0.01%	(384)
Tax effects of income reconciliation	-0.73%	(25,337)	-2.77%	(116,098)
Tax effects on IFRS 9	-1.01%	(34,851)	-0.83%	(34,851)
Tax credit received and used in the current year	0.86%	29,732	-1.14%	(47,600)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-15.68%	(543,213)	-13.89%	(582,437)
Correction of tax effects under deferred taxes	-5.26%	(182,315)	30.15%	1,264,085
Tax effects stated within the income statement		**182,315**		**(1,264,085)**

20.1.3 Movements in deferred taxes as at December 31 are presented as follows:

In thousands of RSD

	Year ended December 31, 2021	2020
Balance as of January 1	(147,400)	1,074,197
Occurrence and reversal of temporary differences	656,642	(1,221,597)
Balance as of December 31	**509,242**	**(147,400)**

20. INCOME TAX (continued)

20.1. Parent Bank (continued)

20.1.4. Deferred tax assets and liabilities

20.1.4.1. Deferred tax assets and liabilities refer to:

In thousands of RSD

	2021			2020		
	Asset	Liability	Net	Asset	Liability	Net
Difference in the present value of fixed assets for tax and financial reporting purposes	-	(26,129)	(26,129)	36,037	-	36,037
Tax losses carried forward	29,732		29,732	-	-	-
Outcomes of change in values of debt and equity securities	127,073	(644,075)	(517,002)	1,779	(968,884)	(967,105)
Long-term provisions for retirement benefits	41,361	-	41,361	58,265	-	58,265
Impairment of assets	357,279	-	357,279	342,947	-	342,947
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period	821	-	821	762	-	762
Accrued and unpaid public duties	229	-	229	112	-	112
First implementation of IFRS 9	34,851	-	34,851	69,702		69,702
Tax credit from loan conversion to CHF	76,119	-	76,119	76,119	-	76,119
Provisions for legal costs	390,567	-	390,567	256,095	-	256,095
Actuarial gains on provisions for employee severance payments	240	-	240	-	(20,334)	(20,334)
Accrued and unpaid severance pay	121.174		121,174	-	-	-
	1,179,446	**(670,204)**	**509,242**	**841,818**	**(989,218)**	**(147,400)**

Within the tax period from January 1 to December 31, 2021, incurred loss amounted to RSD 198,215 thousand and thus a deferred tax asset in the amount of RSD 29,732 thousand was established.

Tax losses carried forward that are not recorded in the books of the Bank and on basis of which deferred tax assets were not formed as of December 31, 2020 amounted to RSD 8,685,280 thousand. The tax credit expired in 2021.

Deferred tax assets were not formed for tax credits on the basis of fixed asset investments in the amount of RSD 10,724 thousand.

20. INCOME TAX (continued)

20.1. Parent Bank (continued)

20.1.4. Deferred tax assets and liabilities (continued)

20.1.4.2. Overview of tax credits for which deferred tax assets were not recognized:

In thousands of RSD

Type of tax credit	Year	Amount as at December 31, 2021	Amount as at December 31, 2020	Expiration date for use
Tax losses carried forward	2016	-	8,685,280	2021
Total tax losses		**-**	**8,685,280**	
Impact of tax losses on future income tax (15%)		-	1,302,792	from 2019 -2021
Tax credit on the basis of investment in fixed assets	2013	10,724	11,766	2023
Total to reduce future income tax liabilities		**10,724**	**1,314,558**	

20.1.4.3. Movements in temporary differences during 2021 and 2020 are shown as follows:

In thousands of RSD

2021	As at January 1,	Through profit or loss account	Through Other comprehensive income	Directly through retained earnings	As at December, 31
Property, plant and equipment	36,037	(65,816)	5,513	(1,863)	(26,129)
Tax losses carried forward	-	29,732	-	-	29,732
Securities	(967,105)	-	450,103	-	(517,002)
Long term provisions for employee benefits	58,265	(16,904)	-	-	41,361
Actuarial gains	(20,334)	-	20,574	-	240
Impairment of assets	342,947	14,332	-	-	357,279
Remuneration of employees according to article 9. p. 2. LMSSC	762	59	-	-	821
Accrued and unpaid public duties	112	117	-		229
First-time Adoption of IFRS 9	69,702	(34,851)	-	-	34,851
Tax credit based on conversion of CHF loans	76,119	-	-		76,119
Provisions for legal costs	256,095	134,472	-	-	390,567
Accrued and unpaid severance pay	-	121,174	-	-	121,174
Total	**(147,400)**	**182,315**	**476,190**	**(1,863)**	**509,242**

In thousands of RSD

2020	As at January 1,	Through profit or loss account	Through Other comprehensive income	Directly through retained earnings	As at December, 31
Property, plant and equipment	39,299	(5,764)	2,502	-	36,037
Tax losses carried forward	1,259,350	(1,259,350)	-	-	0
Securities	(1,007,684)	-	40,579	-	(967,105)
Long term provisions for employee benefits	53,838	4,427	-	-	58,265
Actuarial gains	(19,741)	-	(593)	-	(20,334)
Impairment of assets	324,857	18,090	-	-	342,947
Remuneration of employees according to Article 9. p. 2. LMSSC	1,213	(451)	-	-	762
Accrued and unpaid public duties	163	(51)	-	-	112
First-time Adoption of IFRS 9	104,552	(34,850)	-	-	69,702
Tax credit based on conversion of CHF loans	76,119	-	-	-	76,119
Provisions for legal costs	242,231	13,864	-	-	256,095
Total	**1,074,197**	**(1,264,085)**	**42,488**	**-**	**(147,400)**

20. INCOME TAX (continued)

20.1. Parent Bank (continued)

20.1.5 Tax effects relating to Other comprehensive income

In thousands of RSD

	2021			2020		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to change in fair value of equity shares and security (increase in equity and debt securities)	(2,165,395)	324,809	(1,840,586)	(262,464)	39,369	(223,095)
Net decrease in actuarial loss / gain	(137,159)	20,574	(116,585)	3,954	(593)	3,361
Changes in properties value	-	5,513	5,513	7,894	2,502	10,396
Decrease due to change in fair value of equity shares and security (decrease in equity and debt securities)	(835,289)	125,294	(709,995)	(8,064)	1,210	(6,854)
Total	**(3,137,843)**	**476,190**	**(2,661,653)**	**(258,680)**	**42,488**	**(216,192)**

20. INCOME TAX (continued)

20.2. Komercijalna Banka a.d. Podgorica

20.2.1. Components of income taxes as of December 31 were as follows:

In thousands of RSD

	Year ended December 31, 2021	2020
Tax expense for period	(1,261)	(502)
Gains from deferred taxes	24,181	1,626
Loss from deferred taxes	(8,391)	(7,440)
Total	**14,529**	**(6,316)**

20.2.2. Reconciliation of the effective tax rate is presented in the table below:

	2021	2021	2020	2020
Profit / (loss) before tax		**(603,261)**		**56,128**
Tax calculated at the domestic income tax rate of 9%	9.00%	(54,293)	9.00%	5,936
Tax effects of net capital losses / gains	-0.21%	(1,261)	-0.89%	(502)
Non-tax deductible expenses	13.47%	81,224	5.56%	3,120
Tax credit-received and used in the current year	-4.26%	(25,669)	-15.24%	(8,554)
Effective income tax	-0.21%	(1,261)	0.89%	502
Correction of tax effects based on deferred taxes	2.62%	15,790	10.36%	5,814
Tax effects shown in the income statement - tax expense for period		**14,529**		**(6,316)**

20.3. Komercijalna Banka a.d. Banja Luka

20.3.1. Components of income taxes as of December 31 were as follows:

In thousands of RSD

	Year ended December 31, 2021	2020
Tax expense for period	(3,413)	(6,806)
Deferred tax gain / loss	715	(161)
Total	**(2,698)**	**(6,967)**

20.3.2. Reconciliation of the effective tax rate is presented in the table below:

	2021	2021	2020	2020
Profit / (loss) before tax		**69,743**		**47,889**
Tax calculated at the domestic income tax rate	10.00%	7,965	10.00%	8,707
Non-tax deductible expenses	5.89%	4,106	20.09%	9,619
Income exempt from tax	-23.05%	(8,658)	-23.05%	(11,519)
Effective income tax	4.89%	3,413	14.21%	6,806
Correction of tax effects under deferred taxes	-1.03%	(715)	0.34%	161
Tax effects shown in the income statement - tax expense for period		**(2,698)**		**(6,967)**

20. INCOME TAX (continued)

20.4. UCITS Fund Management Company KomBank INVEST a.d., Belgrade

20.4.1. Components of income taxes as of December 31 were as follows:

	In thousands of RSD	
	Year ended December 31,	
	2021	**2020**
Tax expense for period	(2)	(1)
Gains from deferred taxes	289	426
Total	**287**	**425**

20.4.2. Reconciliation of the effective tax rate is presented in the table below:

	2021	**2021**
Profit / (loss) before tax	**636**	**681**
Tax calculated at the domestic income tax rate of 15%	95	102
Tax effects of net capital losses / gains	2	1
Tax effects of the difference between depreciation for tax purposes and accounting depreciation	36	29
Correction of tax effects (used and new effect)	(133)	(132)
Other	1	1
Tax effects shown in the income statement	**(2)**	**(1)**
Effective tax rate	**0.15%**	**0.15%**

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK

Cash and assets held with the central bank include:

	In thousands of RSD Year ended December 31, 2021	2020
In RSD		
Cash on hand	4,653,308	4,572,746
Gyro account	24,859,789	24,851,040
Surplus of liquidity assets deposited	-	7,500,000
Other RSD cash funds	99	99
	29,513,196	**36,900,365**
In foreign currency		
Cash on hand	11,906,740	11,300,634
Required reserve held with the NBS	39,019,097	36,879,516
Other cash funds	1,616,448	1,788,035
	52,542,285	**49,968,185**
Total	**82,055,481**	**86,892,070**
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 23.1)	17,601,652	11,542,557
Foreign currency required reserves	(39,019,097)	(36,879,515)
Surplus of liquidity assets deposited	-	(7,500,000)
	(21,417,445)	**(32,836,958)**
Cash and cash equivalents reported in statement of cash flows	**60,638,036**	**54,055,112**

In the cash flow statement, the Group records cash on the NBS bank account, cash on accounts of foreign banks, funds in the account of the Central Securities Depository and cash at the cash register.

Parent Bank

In the cash flow statement, the parent bank records cash on the NBS bank account, cash on accounts of foreign banks, funds in the account of the Central Securities Depository and cash at the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the required reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0% to 5%, depending on the maturity of liabilities and their source, while the calculated RSD required reserve makes the sum: calculated required reserves in RSD, 38.00% of the RSD countervalue of the calculated required reserve in EUR on deposits up to 730 days, and 30.00% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days (Official Gazette RS no. 76/2018).

The National Bank of Serbia pays interest to the Bank on the allocated funds in RSD in the amount of 0.10% annually from June 18, 2020.

The Parent bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Parent bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The Parent bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK (continued)

Pursuant to the Decision on Required Reserve (Official Gazette no. 76/2018), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied
- for foreign currency deposits placed for over 730 days the rate of 13% was applied
- for RSD deposits indexed with currency clause the rate of 100% was applied regardless of maturity

The parent bank does not earn interest on the required reserve in foreign currency. During 2021, in accordance with the Decision on the required reserves of the National Bank of Serbia, the Parent Bank allocated a certain part of the required foreign exchange reserves in dinars on its giro account.

Other foreign currency cash in the amount of RSD 1,616,448 thousand (2020: RSD 1,304,141 thousand) relate to an accruals account at the Central Registry of securities for security trading.

22. SECURITIES

22.1. Securities consist of:

In thousands of RSD

	Year ended December 31, 2021	2020
Securities measured at fair value through profit and loss (in RSD)	668,087	5,535,104
Securities measured at fair value through profit and loss in foreign currency	-	2,925,568
Total I	**668,087**	**8,460,672**
Securities measured at fair value through other comprehensive income (in RSD)	84,730,864	82,062,022
Securities measured at fair value through other comprehensive income in foreign currency	63,411,166	67,074,175
Impairment allowance	(582)	(453)
Total II	**148,141,448**	**149,135,744**
Securities measured at amortized cost – corporate bonds (in RSD)	846,000	846,000
Discount bill	96,144	-
Impairment allowance	(7,660)	(3,760)
Total III	**934,484**	**842,240**
Total I+II+III	**149,744,019**	**158,438,656**

22. SECURITIES (continued)

22.2. Breakdown of securities measured at fair value through profit and loss is provided below:

	In thousands of RSD Year ended December 31, 2021	2020
Republic of Serbia bonds (in RSD)	-	4,873,616
Investment units OIF KomBank Foreign Exchange Fund	15,094	5,021
Investment units OIF money market funds in dinars	652,993	656,467
Republic of Serbia bonds (in foreign currency)	-	2,925,568
Total	**668,087**	**8,460,672**

Investment units as at December 31, 2021 in the total amount of RSD 668,087 thousand refer to investment units KomBank Monetary Fund, Belgrade and OIF Foreign Currency Fund.

22.3. The structure of the securities that are measured at fair value through other comprehensive income:

	In thousands of RSD Year ended December 31, 2021	2020
In RSD		
Republic of Serbia bonds	84,689,682	80,958,748
T-bills Government of Republic of Serbia	-	997,064
Bonds of local government (city of Sabac and municipality of Stara Pazova)	41,182	106,210
Total in RSD	**84,730,864**	**82,062,022**
In foreign currency		
Republic of Serbia bonds	45,794,353	59,359,112
Bonds of foreign banks (Raiffeisen Bank International)	1,760,642	1,739,077
Bonds of foreign States (Republika Srpska)	15,856,171	5,975,986
Total in foreign currency	**63,411,166**	**67,074,175**
Total	**148,142,030**	**149,136,197**

22. SECURITIES (continued)

Changes in impairment is presented as follows:

Impairment of securities at fair value through OCI	***In thousands of RSD*** **Year ended December 31,**	
	2021	**2020**
Individual impairment allowance		
Balance as at January 1	453	602
Increase (Note 13)	11,835	4,106
Effects of the changes in exchange rates (Note 13)	1	
Reversal (Note 13)	(11,707)	(4,255)
Total individual impairment allowance	**582**	**453**

Impairment of securities measured at amortized cost	***In thousands of RSD*** **Year ended December 31,**	
	2021	**2020**
Individual impairment allowance		
Balance as at January 1	3,760	-
Increase (Note 13)	3,900	3,760
Total individual impairment allowance	**7,660**	**3,760**
Total individual impairment	**8,242**	**4,213**

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

23.1 Loans and receivables due from banks include:

	In thousands of RSD	
	Year ended December 31,	
	2021	2020
RSD loans and receivables		
REPO transactions	-	-
Loans for working capital	66,839	1,500
Overnight loans	-	-
Other loans and receivables	7,946	4,085
Paid deposits	8,166,320	16,379
Prepayments	22,514	970
Accruals	(202)	(2)
Impairment allowance	(1,179)	(12)
Total in RSD	**8,262,238**	**22,920**
FX loans and receivables		
REPO transactions	-	1,165,461
Foreign currency accounts held with foreign banks (Note 21)	17,601,652	11,542,558
Overnight loans	-	1,175,802
Other loans and receivables due from foreign banks	1,186,428	1,623,954
Foreign currency deposits placed with other banks	1,063,616	2,384,126
Prepayments	115	456
Other receivables	2,744	4,505
Secured foreign currency warranties	1,033,630	949,980
Impairment allowance	(19,722)	(4,279)
Total in foreign currency	**20,868,463**	**18,842,563**
TOTAL	**29,130,701**	**18,865,483**

As at December 31, 2021, the Parent Bank did not have securities acquired in reverse repo transactions with the National Bank of Serbia. During the year, placements to treasury bills purchased from the National Bank of Serbia, maturing up to 7 days with the annual interest rate of 0.11% to 0.43%.

Short-term time loans and deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 0.11% to 1.30% per annum. Short term time deposits at banks in foreign currency are deposited for a period not exceeding one year, with interest rates ranging from 0.05% per annum for the EUR, from 0.03% to 0.12% for USD and from 0.02% to 0,03% for GBP.

Reverse repo with domestic banks was placed at an interest rate of 0.20%.

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

23.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

	In thousands of RSD	
	Year ended December 31,	
Impairment allowance	**2021**	**2020**
Balance as at January 1	4,291	218,959
Impairment allowance in current year		
Increase (Note 13)	52,463	20,286
Reclassification – transfer on clients	-	(195,504)
Effects of the changes in exchange rates (Note 13)	138	(18,956)
Reversal (Note 13)	(34,801)	(20,495)
Effect of change within Group	(1,190)	-
Other	-	13
Balance as at December 31	**20,901**	**4,291**

24. LOANS AND RECEIVABLES DUE FROM CLIENTS

24.1 Loans and receivables due from customers:

In thousands of RSD
Year ended December 31,

	2021			2020		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers and registered farms						
Transaction account overdrafts	465,479	(9,563)	455,916	451,368	(24,688)	426,680
Working capital loans	51,627,619	(2,924,395)	48,703,224	48,631,549	(4,565,701)	44,065,848
Investment loans	49,808,508	(1,480,258)	48,328,250	50,046,260	(1,070,067)	48,976,193
Loans for payments of imported goods and services	998,631	(34,218)	964,413	2,928,241	(30,092)	2,898,149
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	4,552	(2,924)	1,628	306,114	(278,343)	27,771
Other loans and receivables	17,402,398	(3,167,773)	14,234,625	29,773,968	(4,997,468)	24,776,500
Prepayments	353,319	(23,381)	329,938	510,391	(29,200)	481,191
Accruals	(174,430)	-	(174,430)	(234,863)	-	(234,863)
	120,486,076	**(7,642,512)**	**112,843,564**	**132,413,028**	**(10,995,559)**	**121,417,469**
Retail customers – private individuals						
Transaction account overdrafts	2,540,761	(172,988)	2,367,773	2,769,970	(177,168)	2,592,802
Housing loans	52,578,106	(562,682)	52,015,424	52,482,981	(457,098)	52,025,883
Cash loans	40,128,468	(655,992)	39,472,476	40,383,218	(444,331)	39,938,887
Consumer loans	252,566	(4,804)	247,762	285,881	(2,450)	283,431
Other loans and receivables	1,473,636	(66,905)	1,406,731	2,283,950	(94,481)	2,189,469
Prepayments	988,007	(23,112)	964,895	1,489,439	(17,130)	1,472,309
Accruals	(273,683)	-	(273,683)	(486,623)	-	(486,623)
	97,687,861	**(1,486,483)**	**96,201,378**	**99,208,816**	**(1,192,658)**	**98,016,158**
Balance as of December 31	**218,173,937**	**(9,128,995)**	**209,044,942**	**231,621,844**	**(12,188,217)**	**219,433,627**

24. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

24.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

In thousands of RSD

	Year ended December 31, 2021	2020
Individual impairment allowance		
Balance at January 1	**10,748,097**	**11,401,092**
Increase (Note 13)	1,785,740	867,900
Reclassification from Group Impairment	904,610	493,899
Reclassification from Bank's impairment	-	195,504
Effects of the changes in foreign exchange rates (Note 13)	840	(1,302)
Released during the year (Note 13)	(1,005,785)	(1,033,753)
Permanent write-off	(4,907,081)	(1,143,788)
Effect of change within Group	(363,805)	-
Other (Note 13)	84,392	(31,455)
Individual impairment allowance	**7,247,008**	**10,748,097**
Group impairment allowance		
Balance at January 1	**1,440,120**	**1,384,755**
Increase (Note 13)	7,225,302	3,718,287
Reclassification to individual Impairment	(904,610)	(493,899)
Effects of the changes in foreign exchange rates (Note 13)	32,528	(23,653)
Released during the year (Note 13)	(4,687,408)	(2,430,141)
Permanent write-off (Note 13)	(603,511)	(737,140)
Effect of change within Group	(280,397)	-
Other (Note 13)	(340,037)	21,911
Total Group impairment allowance	**1,881,987**	**1,440,120**
Balance as of December 31	**9,128,995**	**12,188,217**

Loans and receivables due from retail customers

During 2021, short-term and long-term loans to retail customers in RSD were approved for a period of 30 days to 120 months in RSD with nominal interest rates ranging from 2.00% to 14.95% per annum.

Short-term loans to retail customers in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.40% to 8.00% annually.

Long-term loans to retail customers in foreign currency are approved for the period from thirteen to ninety-five months with nominal interest rates ranging from 1.50% to 8.00% annually.

24. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Loans and receivables due from legal entities

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.30% to 7.95% annually. In foreign currency, short-term loans were granted for a period up to twelve months with an interest rate of EUR 1.50% to 5.70% annually.

Long-term loans in RSD were approved for a period over twelve months at an interest rate of 1.61% to 5.30% annually. Long-term loans in foreign currency were granted for a period over twelve months at an interest rate of EUR 1.06% to 3.95% annually.

Risks and Uncertainties

The management of the Bank calculates provision for possible loan losses by applying the concept of expected credit losses. Losses due to the impairment of financial assets held at amortised cost are measured as the difference between the carrying value of the financial asset and the present value of the estimated future cash flows discounted with the initial interest rate of the asset. Losses are recognized in the income statement and are measured at the position of impairment and of financial assets. When events after the balance sheet date is affected by a reduction in the amount of loss due to impairment, such a reduction is recognized as revenue of the abolition of impairment, through the income statement.

Loans and other receivables are shown in the amount less the Bank and the individual calculation of impairment. Individual and group provisions are deducted from the book value of loans that are identified as impairment to their value reduced to their recoverable value. In order to protect against the risk of default in dealings with customers, the Bank is undertaking the following measures for the regulation of claims: extension, restructuring, alignment, retrieval of assets for the purpose of securing payment of claims, the conclusion of contracts with interested third party, launch litigation and other measures. If measures regulating investments, or foreclosure and court proceedings have not produced the expected results, or when there is no possibility of the collection in its entirety, initiates the proposal for a permanent write-off of the remaining claims of the banks, or transfer from on-balance to off-balance records.

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

In thousands of RSD
Year ended December 31,

	2021	2020
NLB banka a.d., Podgorica	1,479,000	-
Total	**1,479,000**	**-**

In November 2021, in conducted operation with NLB Group, the Bank acquired 23.97% of equity share of NLB banka a.d. Podgorica in respect of shares with Komercijalna banka Podgorica. (Note 3 (a)).

The Bank engaged an independent appraiser to assess the equity share value as of November 30, 2021, after the legal change - merger of Komercijalna banka a.d. Podgorica to NLB banka a.d. Podgorica.

26. INTANGIBLE ASSETS

26.1 Intangible assets comprise:

In thousands of RSD

	Year ended December 31, 2021	2020
Intangible assets	361,707	561,339
Intangible assets in progress	220,394	17,074
Total	**582,101**	**578,413**

26.2 Movements on the account of intangible assets in 2021 and 2020 are presented below:

In thousands of RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as of January 1, 2020	**3,101,453**	**35,564**	**3,137,017**
Additions	8,755	73,119	81,874
Transfers	91,608	(91,608)	-
Disposals	(4,739)	-	(4,739)
FX differences	(40)	(1)	(41)
Balance as of December 31, 2020	**3,197,037**	**17,074**	**3,214,111**
Balance as of January 1, 2021	**3,197,037**	**17,074**	**3,214,111**
Additions	6,975	312,225	319,200
Transfers	90,125	(104,854)	(14,729)
FX differences	9	-	9
Effect of changes within Group	(395,605)	(4,052)	(399,657)
Balance as of December 31, 2021	**2,898,541**	**220,393**	**3,118,934**
Impairment allowance			
Balance as of January 1, 2020	**2,382,517**	-	**2,382,517**
Amortization (Note 17)	257,950	-	257,950
Disposals	(4,739)	-	(4,739)
FX differences	(30)	-	(30)
Balance as of December 31, 2020	**2,635,698**	**-**	**2,635,698**
Balance as of January 1, 2021	**2,635,698**	**-**	**2,635,698**
Amortization (Note 17)	260,343	-	260,343
Transfers	(7,242)	-	(7,242))
FX differences	10	-	10
Effect of change within Group	(351,976)	-	(351,976)
Balance as of December 31, 2021	**2,536,833**	**-**	**2,536,833**
Net carrying amount			
Balance as of December 31, 2020	**561,339**	**17,074**	**578,413**
Balance as of December 31, 2021	**361,708**	**220,393**	**582,101**

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment comprise:

In thousands of RSD

	Year ended December 31, 2021	2020
Property	4,688,759	5,080,081
Equipment	421,241	506,621
Investments in progress	2,760,607	34,586
Leased assets	885,133	1,121,911
Total	**8,755,740**	**6,743,199**

Investments in progress mostly pertained to purchase of business building in December 2021 in the amount of RSD 2,734,933 thousand.

27.2 Movements on the account of property and equipment in 2021 and 2020 are presented below:

In thousands of RSD

	Property	Equipment	Investment in progress	Leased assets	Total
Cost					
Balance as of January 1, 2020	**7,558,732**	**4,153,470**	**49,281**	**1,834,386**	**13,595,869**
Additions and new leases agreements	-	7,727	124,777	236,987	369,491
Transfer from item in progress	77,666	61,805	(139,471)	-	-
Disposals	(21,042)	(228.779)	-	(201)	(250,022)
Shortages by inventory count	-	(1,116)	-	-	(1,116)
Leases other		(6)		(41,453)	(41,459)
FX differences	(47)	(59)	(1)	(52)	(159)
Balance as of December 31, 2020	**7,615,309**	**3,993,042**	**34,586**	**2,029,667**	**13,672,604**
Balance as of January 1, 2021	**7,615,309**	**3,993,042**	**34,586**	**2,029,667**	**13,672,604**
Additions and new leases agreements	-	788	2,977,047	473,807	3,451,642
Transfer from item in progress	8,177	230,146	(238,323)	-	-
Transfers from items acquired collection of receivables	-	-	4,793	-	4,793
Disposals	(48,027)	(107,688)	(10,352)	(28,281)	(194,348)
Shortages by inventory count	-	(3,522)	-		(3,522)
Leases other	-	14,807	-	(102,014)	(87,207)
Effect of change within Group	(439,682)	(547,458)	(7,144)	(480,457)	(1,474,741)
FX differences	7	11	-	10	28
Balance as of December 31, 2021	**7,135,784**	**3,580,126**	**2,760,607**	**1,892,732**	**15,369,249**
Impairment allowance					
Balance as of January 1, 2020	**2,400,497**	**3,471,809**	**-**	**469,172**	**6,341,478**
Charges in the year (Note 17)	155,793	243,634	-	466,309	865,736
Disposals	(21,042)	(227,950)	-	-	(248,992)
Shortages by inventory count	-	(1,026)	-	-	(1,026)
Leases other	-	(6)	-	(27,717)	(27,723)
FX differences	(20)	(40)	-	(8)	(68)
Balance as of December 31, 2020	**2,535,228**	**3,486,421**	**-**	**907,756**	**6,929,405**
Balance as of January 1, 2021	**2,535,228**	**3,486,421**	**-**	**907,756**	**6,929,405**
Charges in the year (Note 17)	145,063	219,391	-	450,351	814,805
Disposals	(19,949)	(97,448)	-	(24,602)	(141,999)
Shortages by inventory count		(3,364)			(3,364)
Leases other	-	(1,113)	-	(94,330)	(95,443)
Effect of change within Group	(213,321)	(445,017)	-	(231,564)	(889,902)
FX differences	4	15	-	(12)	7
Balance as of December 31, 2021	**2,447,025**	**3,158,885**	**-**	**1,007,599**	**6,613,509**
Net carrying amount					
Balance as of December 31, 2020	**5,080,081**	**506,621**	**34,586**	**1,121,911**	**6,743,199**
Balance as of December 31, 2021	**4,688,759**	**421,241**	**2,760,607**	**885,133**	**8,755,740**

27. PROPERTY, PLANT AND EQUIPMENT (continued)

27.2 Movements on the account of property and equipment (continued)

Members of the Group do not have mortgaged buildings to secure repayment of the loan.

Due to incomplete cadastral books, as of December 31, 2021 the Parent bank does not have evidence of ownership for 7 properties with the net book value of RSD 89,262 thousand. The Parent bank's management takes all the necessary measures to obtain ownership papers. The conclusion of this process depends on the treatment of the competent authority.

28. INVESTMENT PROPERTY

28.1 Movements on the account of investment property in 2021 and 2020 are presented below:

	In thousands of RSD Total
Cost	
Balance as at January 1, 2020	2,841,257
Adjustment of the opening balance of changes in accounting policy (Note 2.5)	968,003
Abolition of accumulated depreciation	(337,505)
Adjusted balance as of January 1, 2020	**3,471,755**
Positive effects of value change (Note 18)	30,335
Negative effects of value change (Note 19)	(463,082)
Sales	(6,784)
FX differences	(69)
Balance as of December 31, 2020 (adjusted)	**3,032,155**
Balance as at January 1, 2021	**3,032,155**
Transfer from assets acquired by collection	150,431
Positive effects of value change (Note 18)	107,537
Negative effects of value change (Note 19)	(40,620)
Transfer from assets held for sale	(66,344)
Effect of change within Group	(572,640)
FX differences	12
Balance as of December 31, 2021	**2,610,531**
Impairment allowance	
Balance as at January 1, 2020	**638,641**
Abolition of accumulated depreciation	**(337,505)**
Adjusted balance on January 1, 2020	**301,136**
Charges in the year	50,902
Depreciation adjustment (Note 2.5)	(38,420)
Sales	(113)
FX differences	(33)
Balance as of December 31, 2020	**313,472**
Balance as at January 1, 2021	**313,472**
Charges in the year	10,209
Transfer from assets held for sale	(18,410)
Appraisal	2,219
Effect of change within the Group	(307,495)
FX differences	5
Balance as of December 31, 2021	**-**
Net carrying amount	
Balance as of December 31, 2020 (adjusted)	**2,718,683**
Balance as of December 31, 2021	**2,610,531**

28. INVESTMENT PROPERTY (continued)

As at December 31, 2021, the Parent Bank has stated investment property with carrying amount RSD 2,610,531 thousand consists of leased facilities.

In 2021, the Parent Bank made a voluntary change in the accounting policy for the subsequent valuation of investment property and thus that the fair value method is used instead of the previously cost method (Note 2.5).

Pursuant to Decision of the Management of the Parent Bank, seven real estates, issued in long-term lease, were reclassified from the items assets acquired by collecting receivables on investment property, with carrying amount of RSD 150,431 thousand.

As of December 31, 2021, the Parent Bank has not yet registered property rights in the competent public registers for 2 investment properties with a current value of 54,193 thousand dinars. In relation to these real estates, all necessary activities have been undertaken, which should result in the final registration of property rights in favor of the Parent Bank.

Information on investment property by members of the Group is presented below:

28.2.1. Operating leasing – Parent Bank

The parent bank leases out its investment property. Leases are classified as operating because not all of the risks and rewards of ownership are transferred.

Investment property is rented to tenants according to the operating lease agreement with monthly rents. The parent bank has no variable annuity depending on the index or rate. Investment property is usually leased for a period of 1 to 10 years. Some contracts are for an indefinite period.

As of December 31, 2021, the net result on the basis of investment real estate is positive and amounts to RSD 64,132 thousand dinars.

In thousands of RSD

Facility	Area in m²	Total cost	Income from rent	Net result
Beograd, Trg Republike 1	3,354	(16,213)	33,016	16,803
Nis, Vrtiste new D – building	1,816	(7,981)	-	(7,981)
Nis, TPC Kalca	85	(238)	6,073	5,835
Beograd, Omladinskih brigade 19	15,218	(12,342)	8,958	(3,384)
Sabac, Majur, Obilazni put bb	1,263	(974)	-	(974)
Lovcenac, Marsala Tita bb	46,971	(841)	7,054	6,213
Negotin, Save Dragovica 20-22	658	(274)	-	(274)
Nis, Bulevar 12. February bb	2,878	(1,289)	6,913	5,624
Beograd, Radnicka 22	7,190	(7,906)	37,740	29,834
Novi Sad, Vardarska 1/B	291	(1,451)	3,557	2,106
Novi Sad, Bulevar Oslobodjenja 88	44	(91)	469	378
Kotor, Old Town, Palata beskuca, business area, number 1	207	(279)	6,431	6,152
Beograd, Luke Vojvodica 77a	80	(603)	796	193
Beograd, Baje Pivljanina 83	279	(748)	2,823	2,075
Subotica, Magn.polja 17	2,492	(1,508)	2,069	561
Čačak, S.polje, Kr.put bb	1,227	(999)	1,510	511
Niš, Čajnička bb	825	(1,406)	1,828	422
Valjevo, Vojvode Mišića 170	231	(20)	-	(20)
Mionica, Andre Savičića 8	106	(13)	71	58
Total		**(55,176)**	**119,308**	**64,132**

28. INVESTMENT PROPERTY (continued)

28.2.1 Operating leasing – Parent Bank (continued)

The following table presents an analysis of the maturity of lease receivables - undiscounted rents that the Bank will receive after the reporting date

		In thousands of RSD Year ended December 31
	2021	2020
Due:		
- up to a year	77,868	103,027
- up to 2 years	2,271	77,867
- up to 3 years	2,271	2,271
- up to 4 years	2,271	2,271
- up to 5 years	2,271	2,271
- over 5 years	2,271	2,271
Total	**89,223**	**189,978**

28.2.2. Komercijalna banka ad, Banja Luka

As at December 8, 2021 the net result of investment property is RSD 2,794 thousand:

In thousands of RSD

Property	Area in m²	Total cost	Realized rental income	Net result
Actros motel-pizzeria Nova Topola	5,437	(2,038)	3,674	1,636
Banja Luka, family business building, office building and workshops	6,814	(290)	661	371
Sarajevo, Aurum arena	402	(190)	487	297
Brcko, Bescarinska zona bb – IMPRO	949	(448)	938	490
Total		**(2,966)**	**5,760**	**2,794**

28.2.3 Komercijalna banka ad, Podgorica

As at November 12, 2021 the net result of investment property is RSD 3,487 thousand:

In thousands of RSD

Facility	Area in m²	Total cost	Realized rental income	Net result
Land and distribution center in Budva	7,114	-	1,940	1,940
Three business premises	52.48	(219)	1,766	1,547
Business premise in Herceg Novi				
		(219)	**3,706**	**3,487**

29. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

	In thousands of RSD Year ended December 31 2021	2020
Assets held for sale and discontinued operations	101,614	370,663
Total	**101,614**	**370,663**

Non-current assets held for sale of Parent Bank:

Facility	Area in sqm	In thousands of RSD Carrying Value
Jasika, business premises	75.87	971
Vrbas, M. Tita 49, business premises	145.56	2,093
Kotor, business premises 1 and 2	690.00	98,550
Total		**101,614**

The Bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

30. OTHER ASSETS

Other assets comprise:

	In thousands of RSD Year ended December 31 2021	2020
In RSD		
Fee receivables per other assets	115,295	95,572
Inventories	98,303	119,667
Foreclosed assets	938,429	3,409,219
Prepaid expenses	162,490	137,479
Equity investments	2,663,302	2,516,975
Other RSD receivables	2,115,051	2,248,805
	6,092,870	**8,527,717**
Impairment allowance on:		
Fee receivables per other assets	(89,209)	(81,165)
Foreclosed assets	(1,940)	(1,722,325)
Equity investments	(446,350)	(446,661)
Other RSD receivables	(720,587)	(817,960)
	(1,258,086)	**(3,068,111)**
	4,834,784	**5,459,606**
In foreign currency		
Fee receivables per other assets	17	8
Other receivables from operations	342,484	634,856
Receivables in settlement	81,828	307,342
Other foreign currency receivables	515,817	783,457
	940,146	**1,725,663**
Impairment allowance on:		
Other receivables from operations	(264,496)	(301,750)
Receivables in settlement	(77,341)	(77,519)
	(341,837)	**(379,269)**
Total	**5,433,093**	**6,806,000**

30. OTHER ASSETS (continued)

Movements of other assets and prepayments impairment allowance is shown in the following table:

	In thousands of RSD Year ended December 31 2021	2020
Balance at January 1	942,741	769,998
Current year impairment		
Increase (Note 13)	251,785	52,264
Changes in FX rates (Note 13)	(45)	(53)
Reversal in the year (Note 13)	(77,737)	(1,578)
Permanent write offs	(1,526)	-
Effects of change within Group	(1,011,434)	-
Other	70,810	122,110
Total Individual impairment allowance	**174,594**	**942,741**
Group impairment allowance		
Balance at January 1	1,979,154	1,913,329
Current year impairment		
Increase (Note 13)	165,937	216,079
Changes in FX rates (Note 13)	1,766	(1,492)
Reversal in the year (Note 13)	(150,474)	(141,576)
Permanent write offs	(14,796)	(6,812)
Effects of change within Group	(2,005)	-
Other	(1,062,385)	(374)
Total Group impairment allowance	**917,197**	**1,979,154**
Balance as at December 31 (excluding small inventory) – subject to credit risk	**1,091,791**	**2,921,895**
Impairment allowance of inventory (not exposed to credit risk)	61,782	78,824
Balance as at December 31 (with small inventory) (without item impairment of equity shares	**1,153,573**	**3,000,719**
Impairment of equity shares	446,350	446,661
Total impairment of other assets	**1,599,923**	**3,447,380**

30. OTHER ASSETS (continued)

a) Equity shares

Other assets also comprise equity shares and are shown in the following table:

	In thousands of RSD Year ended December 31 2021	2020
Equity shares in banks and other financial organizations	80,270	80,270
Equity shares in companies and other legal entities	431,327	458,725
Equity shares in non-resident entities abroad	2,151,705	1,977,627
	2,663,302	**2,516,622**
Impairment allowance of:		
Equity shares in banks and other financial organizations in bankruptcy	(80,270)	(80,270)
Equity shares in companies and other legal entities	(366,080)	(366,391)
	(446,350)	**(446,661)**

Equity shares in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity shares in companies mostly relate to: 14. Octobar a.d. Krusevac in the amount of RSD 324,874 thousand, Dunav osiguranje a.d.o. Belgrade in the amount of RSD 60,276 thousand, RTV Politika d.o.o. Belgrade in the amount of RSD 37,634 thousand, Belgrade Stock Exchange a.d. in the amount of RSD 2,246 thousand and Politika a.d. Belgrade RSD 2,244 thousand.

Equity shares in non-resident entities abroad relate to VISA INC Company in the amount of RSD 1,685,355 thousand and MASTER Card International in the amount of RSD 450,354 thousand.

Impairment allowance of equity shares totalling RSD 446,350 thousand relates to the impairment of cost of those equity shares that have no market value, out of which the major portion refers to: 14. October a.d., Krusevac in the amount of RSD 324,874 thousand, Euroaxis bank Moscow worth RSD 78,387 thousand, RTV Politika Belgrade in RSD 37,633 thousand and PPD Dobricevo d.o.o. Cuprija amounting to RSD 2,563 thousand.

b) Other receivables and receivables from operations

Other receivables stated in RSD mostly relate to operating receivables in the amount of RSD 223,059 thousand (impairment in the amount of RSD 76,968 thousand), receivables from material values received by collection of receivables in the amount of RSD 938,429 thousand (impairment in the amount of RSD 1,940 thousand), receivables from advances given for working capital in the amount of RSD 53,484 thousand (impairment in the amount of RSD 8,360 thousand), receivables from rent in RSD 371,984 thousand (impairment in the amount of RSD 233,682 thousand), receivables for default interest from other assets in the amount of RSD 200,766 thousand (impairment in the amount of RSD 126,775 thousand) and operating receivables according to the court judgment in the amount of RSD 209,085 thousand (impairment in entire 100%).

30. OTHER ASSETS (continued)

v) Foreclosed assets

Foreclosed assets totalling to RSD 938,429 thousand gross, less recorded impairment allowance of RSD 1,940 thousand, with the net carrying value of RSD 936,489 thousand relate to:

I Foreclosed properties classified in accordance with the classification decision that applied before December 30, 2013.

In thousands of RSD

Item	Area in sqm	Value	Date of acquisition
Novi Pazar, Kej skopskih žrtava 44, store	82.95	2,760	27.09.2006
Gnjilica, field VII class	2,638	75	15.04.2008
Čačak, Hotel „ Prezident“, Bulevar oslobođenja bb	2,278.92	68,762	21.01.2009
Buče, forest, IV class	8,292	299	12.10.2010
Budva, Crna Gora, forest, IV class	974	8,080	27.05.2011
Prijevor, forest, IV class	1,995	11,087	27.05.2011
Beograd, Mihajla Avramovića 14a, residential	925.35	166,849	21.11.2011
Kruševac, Koševi, production business facility I.C.P.	12,836	38,440	08.06.2012
Mladenovac, Sopot-Nemenikuće, field III class	16,633	274	25.06.2012
Obrenovac, Mislođin, , field III class	10,017	1,078	11.07.2012
Novi Pazar, Ejupa Kurtagića 13, house	139.90	4,755	24.07.2012
Majur, Tabanovačka, field	14,452	1,671	10.08.2012
Mali Požarevac, Veliko polje, fiels III and IV class	21,915	328	27.09.2012
Ćuprija, Alekse Šantića 2/24, apartment	72.40	924	15.01.2013
Niš, Ivana Milutinovića 30, business premises	438.39	4,919	23.04.2013
Niš, Triglavska 3/1, apartment	79.80	3,609	04.06.2013
Mladenovac, field-meadow III class	1,142	505	18.07.2013
Prijepolje, Karoševina, sawmill	450	1,126	08.11.2013
Total I		**315,541**	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

II Foreclosed properties classified in accordance with the classification decision that is applied after December 30, 2013

In thousands of RSD

Description	Area in sqm	Value	Date of acquisition
Vukovac,, Milatovac, agricultural land	132,450	521	16.05.2014.
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	39,437	08.05.2014.
Mokra Gora, land, forests, fields, houses	58,400	3,246	31.01.2014.
Kopaonik, House with land	337	5,865	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 6/3	29	3,944	31.01.2014.
Novi Sad, Bulevar oslobodjenja 30 and commercial property 7/3	44	5,984	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 8/3	35	4,760	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 9/3	34	4,624	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 10/3	39	5,304	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, commercial/23	253	31,340	31.01.2014.
Novi Sad, Tihomira Ostojica 4, office space 7	134	5,663	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 8	81	4,075	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 9	79	3,974	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 10	408	21,387	31.01.2014.
Zrenjanin, Novosadski put 4, building, pump and land	9,144	38,110	14.08.2014.
Budva, Rezevici, Montenegro, rocks, forest	1,363.20	17,922	22.07.2014.
Budva, Rezevici, Montenegro, forest V class	5,638.54	74,126	22.07.2014.
NIS, Ivana Gorana Kovacica 31, residential building	434.58	9,572	17.04.2013.
Mladenovac, Americ, field IV class	7,768	260	03.10.2014.
Valjevo, Radjevo selo, warehouse	394	2,364	11.06.2014.
Bela Crkva, Kajtasovo, forest	4,187	85	03.10.2014.
Mladenovac, fields, orchards	25,136	551	03.10.2014.
NIS, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	14,178	14.03.2013.
NIS, Sumadijska 1, Office space	504.60	1,939	04.12.2014.
Valjevo, Worker 6, place	69	2,981	28.05.2014.
Prokuplje, field III class	12,347	530	28.08.2015.
Prokuplje, Maloplanska 7, building with land	490	300	11.06.2012.
Sokobanja, agricultural land, Orchard, field IV class	417,908	7,394	31.07.2012.
Sokobanja, production hall with land	5,042	25,347	31.07.2012.
Sokobanja, space with land	2,005	728	31.07.2012.
Sokobanja, House with land	4,194	8,117	31.07.2012.
Lebane, Branka Radičevica 17, residential and commercial building	768.42	6,246	27.08.2015.
Sid, Jamene, field, krcevinai cerje IV and V class	29,515	1,354	11.03.2016.
Loznica, Lipnica, Karađorđeva, residential and commercial building with land	146	2,149	15.10.2015.
Vrhpolje, lodging hospitality	1,334	2,457	16.05.2013.
Zrenjanin, Bagljas, pasture II class	230	50	22.12.2015.
Svilajnac, Kodublje, Office building, halls and land	10,462	28,802	26.02.2016.
Aleksandrovo, Merosina, building with land	8,527	14,056	23.12.2015.
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	232	31.03.2016.
Valjevo, Bobove, field VI and VII class	20,599	360	19.05.2016.
Kotor, Montenegro, Office space, building No. 1	106	24,117	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	52,330	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	34,887	22.12.2016.
Nis, Trg Ucitelja Tase br. 10/1, office space	79.40	6,114	13.03.2019.
Curug, Nikole Pasica bb, silos with additional facilities	910	61,577	07.10.2019.
Zabari, fileds III class	12,732	306	08.03.2017.
Novi Sad, Petra Drapsiina 29, apartment	154	14,230	14.10.2020.
Lazarevo, Complex of agricultural buildings	1,585	5,069	
Total II		**599,164**	

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

III Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of on-balance and off-balance sheet items

In thousands of RSD

Description	Value	Date of acquisition
Krusevac, moveable assets (\machinery, furniture, equipment)	5,544	08.06.2012
Nis and Soko Banja Moveable assets (lines for processing coffee, transport devices and devices for maintaining hygiene)	4,916	31.07.2012
Paracin, lines for production for coffee	1,569	31.12.2012
Vranic, lines for production	1,810	09.07.2013
Total III	**13,839**	

IV Equipment acquired in periods after December 30, 2013 – which classify as balance and off-balances items in accordance with the relevant NBS decision

In thousands of RSD

Description	Value	Date of acquisition
Moveable property, agricultural equipment and tools	48	03.06.2015
Equipment supplies raw materials	1,242	18.07.2014
Movables, installation material	388	13.05.2014
Other	6,267	07.10.2019
Total IV	**7,945**	

V Securities acquired through the collection of receivables

In thousands of RSD

Description	Value	Date of acquisition
Securities acquired through the collection of receivables	1,940	12.09.2019
Impairment of securities	(1,940)	
Total V	**-**	
Total (current value) I + II+ III+ IV+V	**936,489**	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

The effect of the impairment of assets acquired through collecting receivables in 2021 is shown in the table:

In thousands of RSD

	Properties	Equipment	Total
Positive effect of change in value (Note 18)	112,014	-	112,014
Negative effect of change in value (Note 19)	(30,355)	(2,279)	(32,634)
Total	**81,659**	**(2,279)**	**79,380**

The positive effect of the value assessment of assets acquired through the collection of receivables is recognized as income for the period up to the amount of previously recognized impairment loss, while the negative effect of is recognized as expense for the period, as follows:

- change in value of property in the net amount of RSD 81,659 thousand under estimated lower market value of property and land (less haircut by 14% in accordance with the Group Methodology) compared to their initial value (acquisition value);
- impairment of equipment in the amount of RSD 2,279 thousand based on the estimated lower market value.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

30. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.1 Appraisal value of foreclosed properties

Property	Area in sqm	Book value before the appraisal	Appraisal value In thousand of EUR	Appraisal value Net current value in thousand of RSD	The difference in value in thousands of RSD
Beograd, Mihajla Avramovića 14a, residential building	925.35	147,436	1,419	166,849	19,413
Budva, Reževići, Crna Gora, forest V class	5,638.54	74,111	630	74,126	15
Čačak, Hotel „ Prezident“, Bulevar oslobođenja bb	2.278.92	68,748	585	68,762	14
Čurug, Nikole Pašića bb, silos with auxiliary facilities	910	55,280	524	61,577	6,297
Kotor, Crna Gora, office premises, building no. 1	345	60,135	445	52,330	(7,805)
Bor, Nikole Pašića 21, office building, warehouse	3,823	40,165	335	39,437	(728)
Kruševac, Koševi, production business facility I.C.P.	12.836	40,194	327	38,440	(1,754)
Zrenjanin, Novosadski put 4, building, pump and land	9,144	30,165	326	38,310	8,145
Kotor, Crna Gora, office premises, building no. 1	345	53,481	297	34,887	(18,594)
Novi Sad, Bulevar oslobođenja 88, office premises 23	253	17,473	267	31,340	13,867
Svilajnac, Kodublje, office building, hall and land	10,462	26,633	245	28,802	2,169
Sokobanja, production hall with land	5,042	20,491	216	25,347	4,856
Kotor, Crna Gora, office premises, building no. 1	106	18,513	205	24,117	5,604
Novi Sad, Polgar Andraša 40/a, business premises 10	408	22,177	182	21,387	(790)
Budva, Reževići, Crna Gora, rocky, forest	1,363.20	18,149	152	17,922	(227)
Niš, Sjenička 1, office building, warehouses, workshop	1,452.73	11,461	121	14,178	2,717
Novi Sad, Petra Drapšina 29, apartment	154	13,447	121	14,230	783
Aleksandrovo, Merošina, building with land	8,527	12,690	120	14,056	1,366
Prijevor, , forest IV class	1.995	4,179	94	11,087	6,908
Niš, Ivana Gorana Kovačića 31, residential building	434.58	3,914	81	9,572	5,658
Budva, Crna Gora, forest IV class	974	3,612	69	8,080	4,468
Sokobanja, building with land	4,194	3,185	69	8,117	4,932
Sokobanja, agricultural land, orchard, class IV field	417,908	4,932	63	7,394	2,462
Lebane, Branka Radičevića 17, residential and commercial building	768.42	4,944	53	6,246	1,302
Niš, Trg Učitelja Tase br. 10/1, shops	79.40	5,489	52	6,114	625
Novi Sad, Bulevar oslobođenja 30a business premises 7/3	44	4,045	51	5,984	1,939
Kopaonik, house with land	337	3,533	50	5,865	2,332
Novi Sad, Tihomira Ostojića 4, business premises 7	134	4,964	48	5,663	699
Novi Sad, Bulevar oslobođenja 30a, business premises 10/3	39	3,585	45	5,304	1,719
Lazarevo, Complex of agricultural facilities	1585	5,069	43	5,069	-
Niš, Ivana Milutinovića 30. business premises	438.39	4,420	42	4,919	499
Novi Pazar, Ejupa Kurtagića 13. house	139.90	3,184	40	4,755	1,571
Novi Sad, Bulevar oslobođenja 30a, business premises 8/3	35	3,218	40	4,760	1,542
Novi Sad, Bulevar oslobođenja 30a, business premises 9/3	34	3,126	39	4,624	1,498
Novi Sad, Polgar Andraša 40/a, business premises 8	81	4,281	35	4,075	(206)
Novi Sad, Bulevar oslobođenja 30a, business premises 6/3	29	2,666	34	3,944	1,278
Novi Sad, Polgar Andraša 40/a, business premises 9	79	4,176	34	3,974	(202)
Niš, Triglavska 3/1, apartments	79.80	2,842	31	3,609	767
Mokra Gora, land, forests, fields, houses	58,4	3,288	28	3,246	(42)
Valjevo, Radnička 6, apartment	69	2,410	25	2,981	571
Novi Pazar, Kej skopskih žrtava 44. shop	82.95	1,910	23	2,760	850
Vrhpolje, catering unit	1,334	2,049	21	2,457	408
Valjevo, Rađevo village, warehouse	394	380	20	2,364	1,984
Other (23 units)	-	12,896	133	15,645	2,749
TOTAL		**833,046**		**914,705**	**81,659**

30. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.2 Appraisal value of foreclosed equipment

Equipment	Carrying amount before appraisal in thousand of RSD	Net book value in thousand of RSD	Difference in thousand of RSD
Movable assets	11,044	8,923	(2,121)
Equipment, supplies, secondary raw material	6,752	6,594	(158)
Other	6,267	6,267	-
Total	**24,063**	**21,784**	**(2,279)**

As of December 31, 2021, the Parent Bank did not register property rights in the land public books for two units with a current value of RSD 1,176 thousand acquired through the collection of receivables. In relation, all necessary activities have been undertaken which should result in the final registration in favor of the Parent Bank.

For three movables items with a total value of RSD 96 thousand, the Parent Bank does not hold any book ownership (items are recorded in off-balance sheet records). The Parent Bank's management takes all necessary measures to sell the acquired assets.

31. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

Deposits and other liabilities due to banks and other financial institutions comprise:

	In thousands of RSD Year ended December 31 2021	2020
Demand deposits	1,764,847	4,164,149
Term deposits	259,542	3,750,865
Overnight deposits	109,000	150,000
Other	1,580	31,176
Balance as at December 31	**2,134,969**	**8,096,190**

During 2021 deposits were 0.10% for RSD. Interest rates on deposits taken from subsidiary foreign banks amounted 0.25% for USD deposits.

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS

Deposits and other liabilities due to customers comprise:

	In thousands of RSD Year ended December 31 2021	2020
Corporate customers and registered farms		
Demand deposits	87,826,768	86,846,426
Revocable deposits	-	180,955
Overnight and other deposits	9,347,332	19,966,291
Borrowings	615,954	4,471,316
Special-purpose deposits	2,769,430	2,478,918
Deposits for loans approved	368,651	682,563
Interest payable, accrued interest liabilities and other financial liabilities	487,686	715,894
Retail customers – private individuals		
Demand deposits	56,766,007	55,006,792
Revocable deposits	-	37,855
Savings deposits	233,332,560	224,973,561
Special-purpose deposits	7,911,007	6,750,908
Deposits for loans approved	2,526,247	2,573,827
Interest payable, accrued interest liabilities and other financial liabilities	1,136,322	1,095,054
Other deposits	198,454	411,707
Balance as of December 31	**403,286,418**	**406,192,067**

Corporate Customer's Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and legal entities. In accordance with the Decision on Interest Rates for 2021, up to April 30,2021, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand. From May 1, 2021, transaction deposits of legal entities are non-interest-bearing. Depending on the level of the average monthly balance, the interest rate on transaction deposits of entrepreneurs is 0.10% per annum if average monthly balance is higher than RSD 50 thousand. From October 1, 2021 entrepreneurial transaction deposits are non-interest-bearing.

Foreign currency demand deposits of non-resident customers are non-interest bearing.

For the period January 1 to December 31, 2021, short-term corporate deposits are interest bearing with rate ranging from: reference interest rates annually minus 0.85% percentage points for a period of 30 to 59 days, to interest rates equal to the reference interest rate annually minus 0.25% percentage points for a period of 180 to 364 days, with a limit of at least RSD 300 thousand, while long-term deposits are deposited at an interest rate determined by the reference interest rate of the National Bank of Serbia on an annual basis.

For the period January 1 to December 31, 2021, Short-term deposits of entrepreneurs in RSD are deposited with interest rate ranging from: 0.15% to 0.45% on deposits from 30 to 59 days to interest rate of 0.75% to 1.20% for a period of 184 to 364 days, with a limit of at least 300 thousand dinars , while long-term deposits are deposited at interest rate of 1.00% to 1.50%.

For the period January 1 to December 31, 2021, Short-term corporate and entrepreneurs deposits in foreign currency are deposited with an interest rate ranging from: 0.00% to 0.25% on deposits from 30 to 59 days to an interest rate of 0.40% for a period of 180 to 364 days for EUR and USD 0.50 % on deposits from 30 to 59 days to 1.00% for a period of 180 to 364 days, with a limit of at least 3 thousand EUR / USD.

For the period January 1 to December 31, 2021, Long-term corporate and entrepreneurs deposits in foreign currency are deposited with interest rates ranging from: 0.10% to 0.70% on deposits of 365 and more days for EUR, or for USD from 0.15% to 1.40% on deposits of 365 and more days , with a limit of at least 3 thousand EUR / USD

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

Retail deposits

Domestic and foreign currency savings deposits of the private individuals during 2021 were non-interest bearing.

Short-term retail deposits in dinars were deposited at interest rates ranging from 1.00% to 2.50% annually, and in foreign currency from 0.05% to 0.35% for EUR, and for other currencies from 0.10% to 1.00% annually.

Long-term retail deposits in dinars are deposited at interest rates ranging from 2.00% to 3.00% annually, and in foreign currency from 0.15% to 0.80% for EUR, and for other currencies from 0.15% to 1.50% annually.

Within the liabilities arising from loans, the total liabilities on foreign credit lines to foreign legal entities that are defined as customers for the balance sheet purposes are recognized.

The structure of long-term and short-term loans that are stated in the position of liabilities to customers is as follows:

	In thousands of RSD Year ended December 31	
	2021	**2020**
Long-term loans		
Government of the Republic of Italy	2,744	5,487
European Investment Bank (EIB)	613,210	970,366
European Agency for Reconstruction and Development (EAR)	-	1,372
Total	**615,954**	**977,225**

The maturity of the loans presented is between 2022 and 2030.

For credit lines (tripartite), the Bank has no contractual obligations with creditors related to financial indicators (monitoring/reporting).

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

32.1. Structure and movement of deposits and other financial liabilities to banks, other financial organizations, central bank and customers are shown below

	In thousands of RSD Year ended December 31 2021	2020
Balance, January 1		
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 31)	8,096,190	8,318,606
Deposits and other financial liabilities to other customers (Note 32)	406,192,067	370,987,710
Balance, January 1	**414,288,257**	**379,306,316**
Effect of change within Group	**(36,599,769)**	**-**
Net inflows / outflows - deposits	27,239,282	33,844,825
Net inflows / outflows - loans	(1,259,627)	1,779,939
Net inflows / outflows - interest	(911,886)	(1,265,765)
Net inflows / outflows - fees	(2,753)	(4,165)
Foreign exchange differences	1,727,979	(782,537)
Accrued interest and other non-cash transactions	939,851	1,409,644
Balance at December 31	**405,421,334**	**414,288,257**

	In thousands of RSD Year ended December 31 2021	2020
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 31)	2,134,916	8,096,190
Deposits and other financial liabilities to other customers (Note 32)	403,286,418	406,192,067
Total banks and customers	**405,421,334**	**414,288,257**

33. PROVISIONS

Provisions relate to:

	In thousands of RSD Year ended December 31 2021	2020
Provisions for off-balance sheet items (Note 13)	208,819	249,508
Provisions for litigations (Note 38.4)	2,619,536	1,797,624
Provisions for employee benefits in accordance with IAS 19	615,548	649,214
Other provisions (Note 19)	807,826	-
Balance at December 31	**4,251,729**	**2,696,346**

33. PROVISIONS (continued)

Movements on the accounts of provisions are provided below:

In thousands of RSD

	December 31, 2021					December 31, 2020			
	Off-balance sheet provisions (Note 13)	Provisions for litigation (Note 38.4)	Provisions for employee benefits (IAS 19)	Other provisions (Note 19)	Total	Off-balance sheet provisions (Note 13)	Provisions for litigation (Note 38.4)	Provisions for employee benefits (IAS 19)	Total
Balance at January 1	**249,508**	**1,797,624**	**649,214**	**-**	**2,696,346**	**210,395**	**1,715,964**	**557,051**	**2,483,410**
Payments	431,459	1,515,936	20,072	1,610,928	3,578,395	250,361	1,012,762	104,241	1,367,364
Provisions against actuarial gains within equity	-	-	137,494		137,494	-	-	(4,338)	(4,338)
Utilised	-	(522,700)	(45,105)	(803,102)	(1,370,907)	-	(142,145)	(3,326)	(145,471)
Abolition of provision	(431,585)	(74,459)	(112,669)	-	(618,713)	(211,244)	(777,198)	(10)	(988,452)
Interest costs	-	-	9,601		9,601	-	-	-	-
FX differences	(2)	(6)	(1)		(9)	(4)	(9)	(4)	(17)
Effect of changes within Group	(40,560)	(96,859)	(43,058)	-	(180,477)	-	-	-	-
Other	(1)	-	-	-	(1)	-	(11,750)	(4,400)	(16,150)
Balance at December 31	**208,819**	**2,619,536**	**615,548**	**807,826**	**4,251,729**	**249,508**	**1,797,624**	**649,214**	**2,696,346**

a) Provisions for litigations of Parent bank

A provision was done on the basis of estimates of future outflows in the amount of damage receivables including interest and costs. Total amount of provisions for 15,558 disputes as at December 31, 2021 amount to RSD 12,603,783 thousand.

Compared to December 31, 2020 there was a change in the total level of provisions in the net amount of RSD 896,482 thousand. Of this, the change related to the net provisioning provision for legal liabilities amounts to RSD 1,418,371 thousand recognized in the income statement position, while the decrease in the provision in the amount of RSD 521,889 thousand relates to the use of provisions for payments and cancellation under the adopted court judgments.

Majority of disputes mainly relate to loan approval fee, receivables for damages and determination.

At the session of the Civil Department of the Supreme Court of Cassation held on September 16, 2021, the Legal Position on the Admissibility of Contracting Loan Costs (adopted on May 22, 2018) was amended by stipulating that the Bank is not obliged to prove the structure and amount of costs covered by the total loan costs specified in the offer accepted by the borrower by concluding the loan agreement.

At the same session on September 16, 2021, the position on the admissibility of contracting insurance premiums, as an obligation of the borrower with NMIC, was taken by stating that the provision of the loan agreement which legally obliges the borrower to pay the insurance premium to the bank with NMIC is legally valid, provided that this obligation is clearly stated. to the borrower in the pre-contractual phase by stating this type of loan costs and its percentage and nominal amount in the offer. The bank is not obliged to acquaint the borrower with the structure and method of calculating the loan insurance premium.

In the financial statements, the estimate of provisions for litigation on the basis of lawsuits filed against the Bank until September 20, 2021 relating to the fees charged by the Bank to borrowers was made without taking into account the position of the Supreme Court of Cassation of September 16, 2021 due to the Bank's determination to wait for the unification of case law based on the position of the Supreme Court of Cassation.

33. PROVISIONS (continued)

b) Provisions for retirement benefits

Provisions for retirement benefits are formed on the basis of an independent actuary's report at the balance sheet date, and are stated in the amount of the present value of expected future payments.

Main actuarial assumptions used in the calculation of provisions for retirement benefits:

In thousands of RSD

	Year ended December 31 2021	2020
Parent Bank		
Discount rate	4.20%	4.00%
Salary growth rate within the Bank	3.80%	3.00%
Salary growth rate at the national level	3.80%	6.00%
Employee turnover	2.90%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

In thousands of RSD
Year ended December 31, 2021

Actuarial assumption	Change of assumptions in percentage points	Change in net book value of provisions for employee benefits
Discount rate	+0.5	(22,891)
	-0.5	24,899
Salary growth	+0.5	21,066
	-0.5	(19,508)
Employee turnover	+0.5	(24,088)
	-0.5	12,569

Komercijalna Banka a.d., Podgorica

In thousands of RSD

	Year ended December 31 2021	2020
Discount rate	3.00%	3.00%
Salary growth rate within the Bank	-	-
Salary growth rate at the national level	2.00%	2.00%
Employee turnover	9.00%	8.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Montenegro was used to determine the discount rate.

Komercijalna Banka a.d., Banja Luka

In thousands of RSD

	Year ended December 31 2021	2020
Discount rate	-	3.00%
Salary growth rate within the Bank	-	2.00%
Salary growth rate at the national level	-	-
Employee turnover	-	5.00%

Komercijalna banka a.d. Banja Luka did not calculate the provision for employee benefits until the date it was part of the Group.

33. PROVISIONS (continued)

b) Provisions for retirement benefits (continued)

KomBank INVEST a.d., Beograd

	In thousands of RSD Year ended December 31	
	2021	2020
Discount rate	4.20%	4.00%
Salary growth rate within the Bank	3.70%	6.00%
Salary growth rate at the national level	3.70%	-
Employee turnover	2.10%	5.00%

34. OTHER LIABILITIES

Other liabilities include:

	In thousands of RSD Year ended December 31	
	2021	2020
Payables	240,740	166,554
Liabilities to employees (salaries, taxes, contributions and other liabilities to employees)	67,377	26,212
Advances received	27,356	192,516
Leasing liabilities	910,609	1,151,562
Deferred income from interest and fees and other income	238,274	333,215
Accrued liabilities and other accruals	1,386,557	1,340,697
Liabilities on transitional accounts	770,418	1,866,692
Liabilities from profit	177,656	183,667
Liabilities for taxes and contributions	13,638	10,882
Other liabilities	310,827	297,881
Balance at December 31	**4,143,452**	**5,569,878**

Liabilities on transitional accounts in the amount of RSD 770,418 thousand mainly relate to liabilities in the account for liquidated foreign currency accounts of domestic legal entities in the amount of RSD 114,870 thousand, liabilities for unpaid dividends to legal entities in the amount of RSD 93,414 thousand, liabilities based on closed customer accounts in RSD in the amount of RSD 142,076 thousand, liabilities in settlement based on liquidated foreign currency accounts of foreign legal entities in the amount of RSD 59,291 thousand and liabilities in settlement on other bases in RSD in the amount of RSD 105,494 thousand.

34.1 **Liabilities from profit** in the total amount of RSD 177,656 thousand consist of:

- dividend payable on preference shares in the amount of RSD 4,251 thousand,
- liabilities from profit to employees in the amount of RSD 173,405 thousand

The remaining amount of liabilities based on dividends in the amount of RSD 4,251 thousand refers to liabilities from the period before 2014 and liabilities to shareholders who did not submit instructions for the payment of dividends.

34. OTHER LIABILITIES (continued)

34.2. Liabilities based on leasing – Parent Bank

In thousands of RSD

	2021		2020	
	Net book value	Undiscounted cash flows	Net book value	Undiscounted cash flows
Due:				
- up to a year	340,163	353,375	323,006	334,983
- up to 2 years	230,204	238,828	214,032	221,561
- up to 3 years	158,435	163,786	142,359	146,686
- up to 4 years	115,005	117,987	72,980	75,449
- up to 5 years	44,745	46,130	40,894	42,284
- over 5 years	22,058	25,931	28,050	31,551
Total	**910,610**	**946,037**	**821,321**	**852,514**

Breakdown of total leasing payments or outflows in 2021 and 2020 is shown in the following table:

In thousands of RSD
Year ended December 31

	2021	2020
Fixed term payments	373,915	381,660
Variable payments	8,580	7,455
Total	**382,495**	**389,115**

Variable payments included in lease liabilities are index-dependent payments. Of the total outflows in the amount of RSD 382,495 thousand, RSD 367,957 thousand relate to principal shown within cash flows from financing activities item, while interest payments amount to RSD 14,538 thousand shown within cash flows from operating activities item in cash flow statement.

Breakdown of leases expenditures and revenues based in 2021 and 2020 is shown in the following table:

In thousands of RSD
Year ended December 31

	2021	2020
Depreciation costs of assets with the right of use	(372,085)	(377,754)
Interest costs from leases liabilities	(14,538)	(15,774)
Rental costs	(46,220)	(31,787)
Tax expense IFRS 16	(67,238)	(65,222)
Net effects of expenditure / (income) from variable payments and expenditure of assets with the right to use	475	629
FX differences	(79)	95
Total	**(499,685)**	**(489,813)**

The Bank leases business premises, vehicles and other equipment used in its business. Lease agreements for business premises are usually concluded for a period of 5 years, while some leases are for a longer period of time, or for an indefinite period.

Indefinite contracts are included in the recognition of lease liabilities in accordance with planned estimates. A lease period of 5 years is usually provided, except for business premises in strategic locations for which management estimates a different (longer) lease term. Lease of vehicles and other equipment is usually made for a period of 1 to 5 years. Some lease agreements include the possibility of automatic renewal, while the vast majority include the right of unilateral termination for the Bank. These options are agreed by the management in accordance with the business needs. Leases for renewable periods are included in the measurement of the lease liability if it is highly probable that the lessee will exercise this option.

34. OTHER LIABILITIES (continued)

34.2. Liabilities based on leasing (continued)

The terms of each lease are agreed on an individual basis and contain different terms. Apart from the obligations assumed in connection with the leased property, the leases do not include other obligations, except for participation in the costs of security, maintenance, marketing, etc., depending on the location or the lessor. The leased property cannot be used as collateral for the loans taken.

The Bank also leases certain equipment with a lease period of 12 months or less and low value equipment. For these leases, the Bank applies an exemption from the obligation to recognize short-term leases and low-value leases. Lease for short-term and small leases is recognized as an expense on a straight-line basis over the lease period.

To calculate the net present value of future leases, the Bank uses its incremental borrowing rate as the discount rate prevailing on the lease date.

The Bank has not incurred any costs related to variable leases and gains or losses from reverse lease transactions.

35. EQUITY

35.1 Equity is comprised of:

	In thousands of RSD Year ended December 31 2021	2020
Share capital	17,191,466	17,191,526
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	22,148,071	25,432,818
Revaluation reserves	3,889,796	8,544,078
Profit	9,579,290	5,385,680
Loss	-	(1,261,380)
Balance as at December 31	**75,651,707**	**78,135,806**

Equity breakdown *In thousand of RSD*

	As of December 31, 2021			As of December 31, 2020 - adjusted		
	Equity shareholders	Non-controlling interests	Total	Equity shareholders	Non-controlling interests	Total
Share capital	17,191,466	-	17,191,466	17,191,466	60	17,191,526
Share issue premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	40,034,550	**-**	40,034,550	40,034,550	**60**	40,034,610
Profit	**9,579,290**	**-**	**9,579,290**	**5,385,674**	**6**	**5,385,680**
Loss	-	**-**	-	(1,261,380)	**-**	(1,261,380)
Reserves from profit and other reserves	22,148,071	-	22,148,071	25,432,814	4	25,432,818
Revaluation reserves (credit balance)	3,890,118	-	3,890,118	6,924,907	-	6,924,907
Revaluation reserves (debt balance)	(322)	-	(322)	-	-	-
Translational reserves (Note 35.3)	-	-	-	1,619,171	-	1,619,171
Reserves	**26,037,867**	**-**	**26,037,867**	**33,976,892**	**4**	**33,976,896**
Equity	**75,651,707**	**-**	**75,651,707**	**78,135,736**	**70**	**78,135,806**

The Parent Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank (owners of the ordinary shares) as well as to shares in profit distribution (owners of the preference and ordinary shares). As of December 31, 2021 the Parent Bank's share capital totalled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

Breakdown of the Parent Bank's shares at December 31, 2021 was as follows:

Shares	Number of shares As of December 31, 2021	As of December 31, 2020
Ordinary shares	16,817,956	16,817,956
Preference shares	373,510	373,510
As of December 31, 2021	**17,191,466**	**17,191,466**

35. EQUITY (continued)

35.1 Equity is comprised of: (continued)

Breakdown of the Parent Bank's shareholders own ordinary shares at December 31, 2021 was as follows:

Shareholder	Number of shares	% of participation
NLB d.d. Ljubljana	14,847,047	88.28
OTP BANKA SRBIJA (custody account)	460,560	2.74
BDD M&V INVESTMENTS AD BEOGRAD	382,590	2.27
Jugobanka a.d., Beograd in bankruptcy	321,600	1.91
Kompanija Dunav osiguranje a.d., Beograd	290,214	1.73
OTP BANKA SRBIJA (custody account)	85,664	0.51
TEZORO BROKER AD	58,952	0.35
BDD M&V INVESTMENTS AD BEOGRAD (cumulative account)	51,117	0.30
CRIMINAL AND POLICE ACADEMY	34,320	0.20
TANDEM FINANCILA a.d. Novi Sad	22,235	0.13
DUNAV RE AD	17,220	0.10
MERA INVEST DOO BEOGRAD	16,900	0.10
TEZORO BROKER AD	12,160	0.07
ERSTE BANK CUSTODY	11,379	0.07
FIZIČKO LICE	11,170	0.07
KRUNA KOMERC D.O.O.	10,000	0.06
ELEKTRODISTRIBUCIJA SRBIJE DOO	8,990	0.05
Other (729 shareholders)	175,838	1.06
	16,817,956	**100.00**

The structure of the Bank's shareholders with preferred shares at December 31, 2021 was as follows:

Shareholder	Number of shares	% of participation
Physical body	73,140	19.58
NLB d.d. Ljubljana	57,250	15.33
Tezoro broker a.d	28,389	7.60
OTP banka Srbija (custody account)	18,447	4.94
Jugobanka a.d., Beograd (in bankruptcy)	18,090	4.84
Physical body	17,440	4.62
BDD M&V Investments a.d Beograd	10,768	2.88
Others (490 of shareholders)	149,986	40.16
	373,510	**100.00**

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

On June 26, 2019 the Ministry of Finance of the Republic of Serbia repurchased shares which were held by the shareholders DEG-DEUTSHE INVESTITIONS and SVEDFUND INTERNATIONAL in the total percentage of 6.90%, and on November 26, 2019 repurchased EBRD shares 24.43%, IFC CAPITALIZATION FUND LP shares 10.15%, which increased percentage of ownership of Serbian Government to 83.23%.

On February 26, 2020 the Ministry of Finance of the Republic of Serbia announced that the representatives of Nova Ljubljanska banka d.d. (NLB) and the Minister of Finance of the Republic of Serbia, signed an Agreement on the purchase and sale of 83.23% of ordinary shares of Komercijalna banka AD Belgrade. By signing this agreement, the Bank acquired a new strategic partner, who took over the management of the Bank after the completion of the transaction. By signing the Agreement on the transfer of shares on December 30, 2020 between the Republic of Serbia and NLB d.d. Ljubljana, Slovenia, the process of selling Komercijalna banka a.d. was completed. The subject of the agreement was 83.23% of ordinary shares of Komercijalna banka, which made NLB d.d. Ljubljana the owner of shares held by the Republic of Serbia and the largest individual owner of the Bank with the right to manage.

On March 11, 2021, the NLB d.d. Ljubljana published an Offer to take over the remaining ordinary and the entire issue of preferred shares of Komercijalna banka a.d. Beograd. By additional acquisition of ordinary shares until December 31, 2021, the NLB d.d. Ljubljana increased its participation in the management shares of Komercijalna banka a.d. Beograd at 88.28%.

Revaluation reserves amounting to RSD 3,889,796 thousand (2020: RSD 8.544.078 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 959,025 thousand, revaluation reserves from valuation of equity instruments in the amount of RSD 1.856.965 thousand, revaluation reserves arising from the valuation of debt securities amounting to RSD 1.075.321 thousand and actuarial loss of RSD 1,515 thousand. Presented values include deferred tax effects.

35.2. Earnings per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	2021	2020 adjusted
Profit of the Parent Bank less priority dividends (in thousands of RSD)	3,638,602	2,522,631
Weighted average number of shares in the year	16,817,956	16,817,956
Basic earnings per share (in dinars without paras)	**216**	**150**

Basic earnings per share for the year 2021 amounts to RSD 216 or 21.64% of the nominal value of ordinary shares, while for 2020 adjusted earnings per share was RSD 150, or 15.00% of the nominal value of the ordinary shares.

35.3. Cumulative foreign exchange losses and gains on foreign transactions

In thousands of RSD

	Cumulative FX on the basis of shares in subsidiaries	Cumulative FX on the basis of intercompany transaction	Cumulative FX on income adjustments to the FX rate as at December 31	Total
Balance as at January 1, previous year	**1,486,395**	**81,917**	**51,141**	**1,619,453**
Increase / Decrease	(729))	445	2	**(282)**
Balance as at December 31, previous year	**1,485,666**	**82,362**	**51,143**	**1,619,171**
Increase / Decrease	(1,485,666)	(82,362)	(51,143)	(1,619,171)
Balance as at December 31, current year				

36. EFFECTS OF SALE OF KB BANJA LUKA AND LOSS OF CONTROL OVER KB PODGORICA IN THE PROCESS OF LEGAL STATUS CHANGE

The total effect of the sale of Komercijalna banka a.d. Banja Luka and loss of control over Komercijalna banka a.d. Podgorica in the process of legal status changes, computed in relation to the carrying amount of the net assets of these subsidiaries on Closing day, was negative and amounted to RSD 2,208,649 thousand and thus was as follow:

Effects of Sale of Komercijalna Banka Banja Luka and Loss Of Control Over Komercijalna Banka Podgorica

		In thousand of RSD
	Net assets	
1.	Share capital	6,825,370
2.	Profit / Loss	(1,357,883)
3.	Reserves	816,097
I TOTAL NET ASSETS (from 1 to 3)		6,283,584
II	Received funds	4,074,935
III	**LOSS FROM SALE / LOSS OF CONTROL (II-I)**	**(2,208,649)**

Breakdown of the loss from sale of Komercijalna banka a.d. Banja Luka and loss of control over Komercijalna banka a.d. Podgorica in the process of legal status change, with an indication of outcomes recognized in the business books of Parent Bank and those that are not, is shown in the following overview:

Breakdown of loss from sale of Komercijalna Banka Banja Luka and loss of control over Komercijalna Banka Podgorica

		In thousand of RSD
1.	*Expenses and income recognized in the books of account KB BG*	
	- Expenses on impairment of equity investments	(1,266,587)
	- Income from sale	563
2.	*Unrecognized income in the books of account of KB BG and other effects*	
	- Unrealized FX difference on shares From investment day to Closing day	(1,484,411)
	- Effects of cumulative gain / loss of subsidiaries	1,357,883
	- Effects of reserves of subsidiaries	(816,097)
LOSS FROM SALE / LOSS OF CONTROL (1+2)		**(2,208,649)**

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

An analysis of assets and liabilities according to when they are expected to be due or settled is shown in the table below:

In thousands of RSD

December 31, 2021	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	82,055,481	-	**82,055,481**
Securities	41,076,574	108,667,445	**149,744,019**
Loans and receivables from banks and other financial organisations	26,186,999	2,943,702	**29,130,701**
Loans and receivables from clients	64,544,306	144,500,636	**209,044,942**
Investments in associates and joint ventures	-	1,479,000	**1,479,000**
Intangible assets	-	582,101	**582,101**
Property, plant and equipment	-	8,755,740	**8,755,740**
Investment property	-	2,610,531	**2,610,531**
Current tax assets	18,985	-	**18,985**
Deferred tax assets	512,015	-	**512,015**
Non-current assets held for sale and discontinued operations	101,614	-	**101,614**
Other assets	3,195,895	2,237,198	**5,433,093**
TOTAL ASSETS	**217,691,869**	**271,776,353**	**489,468,222**
Deposits and other liabilities to banks, other financial organisations and central bank	2,134,581	335	**2,134,916**
Deposits and other financial liabilities to clients	378,932,095	24,354,323	**403,286,418**
Provisions	-	4,251,729	**4,251,729**
Other liabilities	3,455,263	688,189	**4,143,452**
TOTAL LIABILITIES	**384,521,939**	**29,294,576**	**413,816,515**
Net	**(166,830,070)**	**242,481,777**	**75,651,707**

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

In thousands of RSD

December 31, 2020 - adjusted

	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	86,892,070	-	**86,892,070**
Securities	20,819,030	137,619,626	**158,438,656**
Loans and receivables from banks and other financial organisations	15,991,777	2,873,706	**18,865,483**
Loans and receivables from clients	62,824,341	156,609,286	**219,433,627**
Intangible assets	-	578,413	**578,413**
Property, plant and equipment	-	6,743,199	**6,743,199**
Investment property	-	2,718,683	**2,718,683**
Current tax assets	19,661	-	**19,661**
Deferred tax assets	-	2,484	**2,484**
Non-current assets held for sale and discontinued operations	370,663	-	**370,663**
Other assets	4,723,511	2,082,489	**6,806,000**
TOTAL ASSETS	**191,641,053**	**309,227,886**	**500,868,939**
Deposits and other liabilities to banks, other financial organisations and central bank	7,245,858	850,332	**8,096,190**
Deposits and other financial liabilities to clients	374,147,298	32,044,769	**406,192,067**
Provisions	-	2,696,346	**2,696,346**
Current tax liabilities	2,079	-	**2,079**
Deferred tax liabilities	-	176,573	**176,573**
Other liabilities	4,803,434	766,444	**5,569,878**
TOTAL LIABILITIES	**386,198,669**	**36,534,464**	**422,733,133**
Net	**(194,557,616)**	**272,693,422**	**78,135,806**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

	In thousands of RSD Year ended December 31 2021	2020
Operations on behalf and for the account of third parties	4,047,859	4,146,427
Commitments	62,616,254	44,263,544
Receivables under repurchase agreements	-	1,175,802
Other off-balance sheet items	465,420,201	484,744,960
Total	**532,084,314**	**534,330,733**

Commitments

38.1 Guarantees and letters of credit

Banks, members of the GRoup issues guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

	In thousands of RSD Year ended December 31 2021	2020
Payment guarantees	7,400,757	5,088,246
Performance guarantees	10,882,641	7,131,239
Letters of credit	-	169,229
Balance as at December 31	**18,283,398**	**12,388,714**

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

38.2 Commitments

The breakdown of commitments is provided below:

	In thousands of RSD Year ended December 31 2021	2020
Unused portion of approved payment and credit card loan facilities and overdrafts	8,673,457	11,169,739
Irrevocable commitments for undrawn loans	29,867,267	20,191,910
Other irrevocable commitments	5,792,132	513,181
Balance as at December 31	**44,332,856**	**31,874,830**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

38.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Funds managed on behalf and for the account of third parties amount to RSD 4,047,859 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,265,543 thousand and relate to the long-term housing loans extended to retail customers, loans on the basis of the purchase of social apartments of budget institutions in the amount of RSD 397,693 thousand (loans taken from Beobanka in bankruptcy). Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 465,420,201 thousand, the Parent Bank, among other things, records nominal value of securities per custody operations performed for the account of its clients RSD 62,264,803 thousand, the nominal value of the securities in the portfolio of the Parent Bank RSD 143,207,644 thousand, the amount written-off of funds in RSD in the amount of RSD 26,945,546 thousand, and the amount written-off of financial assets in foreign currency in the amount of RSD 3,786,814 thousand, according to the NBS of the accounting write off balancing assets. The Parent Bank according to the issued permission to perform custody jobs saved and financial instruments in the accounts of clients' securities, what is off-balance evidence. The Bank takes no credit risk in respect of managed funds.

Moreover, in accordance with the regulations, other off-balance sheet assets include the value of the tangible assets received as collaterals securitizing loan repayment: residential and commercial real estate properties and other collaterals that amount to RSD 179,824,410 thousand.

38.4 Litigation

Based on the expert judgment of the Bank's Legal Department and the lawyers representing the members of the Group, in disputes against the members in 2021, the managements made provisions for potential losses in litigation in the amount of RSD 2,619,536 thousand (Note 33).

As at December 31, 2021 the Parent Bank has 46,782 registered proceedings against the Bank, the total value of RSD 5,944,758 thousand.

This amount includes both binding claims for payment and the values of the subject matter of the dispute indicated in the lawsuits with the determining claim. The stated amount does not include the amounts of interest and court expenses.

In addition, as at December 31, 2021, the Parent Bank has 13,674 registered proceedings against third parties, whose total value of the subject matter of the dispute is RSD 45,626,213 thousand.

The UCITS Fund Management Company KomBank INVEST a.d Belgrade has 1 registered procedure filed against the Company. Contingent liabilities based on court disputes - lawsuit filed against the Company amount to RSD 15,753 thousand. The Company does not have any registered proceedings against third parties.

38.5 Tax Risks

Tax systems in the Republic of Serbia, Montenegro and Bosnia and Herzegovina is undergoing continuous amendments. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The managements of members of the Group believe that tax liabilities recognized in the financial statements are fairly presented.

39. RELATED PARTY DISCLOSURES

Related parties of the Group consider to be as: parent bank, subsidiaries, associates, entities members of the same group or under joint control, members of Board of Directors and Audit Committee, Executive Board and managers as members of other committees with responsibilities and authorisation for planning, directing and controlling the bank operations ("key management"), close members of their families, as well as legal entities under the control or significant influence of key management and members of their families, in accordance with IAS 24.

In the normal course of business, a number of banking transactions are performed with related parties. These include loans, deposits, investments in equity securities, derivative instruments, payment transactions and other banking operations.

39.1 Parent company and subsidiaries

NLB d.d. Ljubljana, which owns 88.28% of the Bank's ordinary shares, has the largest share in the management rights of the Parent Bank. The Parent bank has one subsidiary: KomBank INVEST a.d., Belgrade. During 2021, Komercijalna banka a.d., Podgorica and Komercijalna banka a.d., Banja Luka ceased to be the subsidiary of the Parent Bank.

Consolidated transactions with subsidiaries are presented in Note 6.1.

39. RELATED PARTY DISCLOSURES (continued)

39.1 Parent Bank and subsidiaries (continued)

Loans and receivable from related parties

In thousands of RSD

	As of December 31, 2021			As of December 31, 2020		
Loans and receivables	**Balance items**	**Off-balance sheet**	**Total**	**Balance items**	**Off-balance sheet**	**Total**
NLB a.d.Beograd	8,408,902	-	8,408,902	5	-	5
NLB d.d. Ljubljana	593,929	-	593,929	6,085	-	6,085
NLB a.d. Banja Luka	17,291	-	17,291	-	-	-
NLB a.d. Podgorica	1,489,560	-	1,489,560	-	-	-
NLB Srbija d.o.o.	605	-	605	-	-	-
Prvi faktor d.o.o. Beograd	1	-	1	-	-	-
REAM d.o.o Beograd	137	1	138	-	-	-
Beomox doo	17,130	-	17,130	19,968	122	20,090
PMC Inženjering	-	-	-	844,093	-	844,093
Emi house	-	-	-	1	-	1
Private individuals	54,543	2,637	57,180	178,950	18,138	197,088
Total	**10,582,098**	**2,638**	**10,584,736**	**1,049,102**	**18,260**	**1,067,362**

Liabilities	**Deposits**	**Received loans**	**Total**	**Deposits**	**Received loans**	**Total**
NLB a.d. Beograd	59,460	-	59,460	-	-	-
NLB d.d. Ljubljana	18,776	-	18,776	-	-	-
NLB a.d. Podgorica	8,212	-	8,212	-	-	-
NLB Interfinanz d.o.o Beograd	5	-	5	-	-	-
NLB Leasing d.o.o	40	-	40	-	-	-
Prvi faktor d.o.o. Beograd	22	-	22	-	-	-
REAM d.o.o Beograd	115	-	115	-	-	-
Beomox doo	5,318	-	5,318	7,344	-	7,344
Arhitektonski biro STUDIO 3	-	-	-	389	-	389
Reprezent d.o.o.	-	-	-	12	-	12
Bolero ZR	-	-	-	64	-	64
Euros osiguranje Banja Luka	-	-		25,507	-	25,507
Deposit Insurance Agency of Republika Srpska	-	-	-	50,994	-	50,994
Native Association of Serbs of the Uskoplje Valley Bugojno - Donji Vakuf	-	-	-	42	-	42
Private individuals	141,752		141,752	403,348	-	403,348
Total	**233,700**	**-**	**233,700**	**487,700**	**-**	**487,700**

39. RELATED PARTY DISCLOSURES (continued)

39.2. Income and expenses incurred with related parties

In thousands of RSD

	2021		
	Interest	Fees	Total
Income			
NLB a.d. Beograd	38,806	4,391	43,197
NLB d.d. Ljubljana	1	2,639	2,640
NLB a.d. Banja Luka	-	595	595
NLB a.d. Podgorica	-	20,409	20,409
Beomox doo	420	1,331	1,751
Physical bodies	1,006	386	1,392
Total income	**40,233**	**29,751**	**69,984**
Expenses			
NLB a.d. Beograd	(35)	(5,036)	(5,071)
NLB d.d. Ljubljana	(839)	(3,940)	(4,779)
NLB a.d. Banja Luka	-	(293)	(293)
NLB a.d. Podgorica	-	(200)	(200)
NLB Interfinanz d.o.o Beograd	-	(5)	(5)
NLB Srbija d.o.o.	-	(5)	(5)
Prvi faktor d.o.o. Beograd	-	(26)	(26)
Beomox doo	(1)	(797)	(798)
Physical bodies	(455)	(62)	(517)
Total expenses	**(1,330)**	**(10,364)**	**(11,694)**
Net income / expenses	**38,903**	**19,387**	**58,290**

39. RELATED PARTY DISCLOSURES (continued)

39.2. Income and expenses incurred with related parties (continued)

In thousands of RSD

	For period January 1 to December 31, 2020		
	Interest	Fees	Total
Income			
PMC Inženjering	9,475	29	9,504
Arhitetonski biro STUDIO 3	-	8	8
Beomox doo	551	318	869
NLB Beograd	40	864	904
NLB d.d. Ljubljana	1	1,357	1,358
Emi house	-	63	63
Bolero ZR	-	19	19
Win Win Retail	-	416	416
WinWin Shop	-	242	242
Euros osiguranje Banja Luka	-	7	7
Deposit Insurance Agency	-	9	9
Native Association of Serbs of the Uskoplje Valley Bugojno - Donji Vakuf	-	7	7
Physical bodies	7,494	810	8,304
Total income	**17,561**	**4,149**	**21,710**
Expenses			
Beomox doo	(7)	-	(7)
Euros osiguranje Banja Luka	(559)	-	(559)
NLB Beograd	-	(642)	(642)
NLB d.d. Ljubljana	(67)	(1,385)	(1,452)
Deposit Insurance Agency	(153)	-	(153)
Physical bodies	(2,174)	(25)	(2,199)
Total expenses	**(2,960)**	**(2,052)**	**(5,012)**
Net income	**14,601**	**2,097**	**16,698**

39.3 Gross and net remunerations paid to the management of the members of the Group and total remunerations paid to members of Board of Directors and Audit Committee were as follows:

In thousands of RSD

	Year ended December 31	
	2021	2020
Gross remunerations		
Executive Board	155,228	164,469
Net remunerations		
Executive Board	116,690	125,785
Gross remunerations		
Board of Directors and Audit Committee	10,661	26,369
Net remunerations		
Board of Directors and Audit Committee	7,133	16,957

40. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Unreconciled outstanding item statements

Based on the obligation to reconcile the balances with the debtors as at December 31, 2021, the Parent Bank forwarded 5,487 open item statements.

Based on the analysis of the Annual Physical Inventory Count as at December 31, 2021, the Parent Bank has inconsistent statements of outstanding items for 36 clients.

Non-reconciled statements for 23 clients relate to clients who challenge the amount of receivables for given advances, receivables from issued invoices and rent receivables in the total amount of RSD 4,614 thousand.

Five clients dispute receivable for domestic payment charge and the issue agent's fee in RSD in the total amount of RSD 138 thousand. Seven clients dispute receivables from loans in the total amount of RSD 1,435 thousand and one client disputes the balance in the off-balance sheet item in RSD 108 thousand.

The amount of allowances for impairment for disputed receivables (and the amount of provisions for balance sheet items) is determined by the Parent Bank's credit risk policy.

The Parent Bank is in a continuous process of reconciliation of disputed items.

UCITS Fund Management Company KomBank INVEST a.d., Beograd does not have any unreconciled open item statements.

41. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period incurred in the Parent Bank

An extraordinary session of the Bank's Assembly was held as at February 2, 2022 at which the following decisions were made:

- Decision on amendments to the Bank's Article of Association;
- Decision on adoption of the Article of Association; and
- Decision on amendments to the Decision on accepting the merger of NLB Bank a.d. Beograd to Komercijalna banka a.d. Beograd.

On February 25, 2022, an extraordinary session of the Bank's Assembly was held, at which the following Decision was made:

- Decision on Amendments to the Decision on Acquisition of the Bank's Own Shares by Dissenting Shareholders

Pursuant to the Decision, the Bank accepted the requests of dissenting shareholders for acquisition of 574,693 own ordinary shares.

The Bank is obliged to acquire own shares, and to pay dissenting shareholders who submitted request for repurchase their shares no later than March 8, 2022 (within 60 days from the expiration of 15 days from the Bank's Assembly closing session date at which the decision on legal status change was made, but upon receiving the prior consent of the NBS).

Events after the reporting period incurred in UCITS Fund Management Company KomBank INVEST a.d., Beograd

There were no events after the balance sheet date, until the date of issue of these financial statements, that would require any adjustments or additional disclosures in the consolidated financial statements.

Apart from the events described in the previous paragraphs, there were no significant events after the balance sheet date that would have to be disclosed in the financial statements.

42. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in RSD on December 31, 2021 and 2020 for certain major currencies are:

	Official exchange rate of the National Bank of Serbia		Average exchange rate of the National Bank of Serbia	
	2021	2020	2021	2020
USD	103.9262	95.6637	-	-
EUR	117.5821	117.5802	117.5736	117.5780
CHF	113.6388	108.4388	-	-
BAM	60.1188	60.1178	60.1144	60.1167

In Belgrade, March 03, 2022

Signed on behalf of Komercijalna banka a.d. Beograd by:

Dejan Janjatović
Deputy of the Chief of the Executive Board

Vlastimir Vuković
Chief Executive Officer

KOMERCIJALNA BANKA AD BEOGRAD
NLB GROUP

2021
ANNUAL REPORT FOR THE GROUP KOMERCIJALNA BANKA AD BEOGRAD

March, 2022

CONTENTS

The consolidated financial statements of the Banking Group are presented in thousands of dinars. The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

The functional currency, EUR from the financial statements of Komercijalna banka ad Podgorica and BAM from the financial statements of Komercijalna banka ad Banja Luka, was converted into the reporting currency of the Parent Bank - dinar (RSD) on the basis of officially published exchange rates in the Republic of Serbia.

The Consolidated Income Statement and the Consolidated Cash Flow Statement for the period have been reclassified using the average official exchange rate in the Republic of Serbia for 2021 of 117,5725 for one EUR and 60,1141 for one BAM, and other consolidated financial statements (balance sheet, statement of changes in equity and statement of other comprehensive income) by applying the closing rate on the balance sheet date of 117,5815 for one EUR or 60,1194 for one BAM.

Business changes made in foreign currency are translated into dinars at the middle exchange rate determined on the interbank foreign exchange market, which is valid on the day of the business change.

Assets and liabilities denominated in foreign currencies at the date of the consolidated balance sheet are translated into dinars at the middle exchange rate determined on the interbank foreign exchange market valid on that day.

The consolidated income statement of the Group includes the income statement of:

- Komercijalna banka a.d. Beograd and Kombank INVEST a.d. Beograd for the period from 01.01 to 31.12.2021,
- Komercijalna banka a.d. Podgorica in the period from 01.01 to 12.11.2021 and
- Komercijalna banka a.d. Banja Luka in the period from 01.01 to 08.12.2021.

Annual Report on Operations for the year 2021 presents a credible presentation of the development and business results of the Komercijalna banka ad Beograd Group achieved in 2021.

1. GROUP'S KEY PERFORMANCE INDICATORS

DESCRIPTION	2021	2020	INDICES 2021/2020	2019	2018	2017
INCOME STATEMENT * *(in thousand RSD)*						
Profit/loss before tax	2.583.160	3.884.127	66,5	7.726.328	8.381.166	7.316.383
Profit/loss after tax	2.777.593	2.607.184	106,5	8.399.865	8.380.334	8.267.996
Net interest income	13.165.036	13.288.023	99,1	13.770.518	13.946.644	13.517.238
Net fee income	6.077.604	5.266.522	115,4	5.727.124	5.540.447	5.413.601
BALANCE SHEET *(in thousand RSD)*						
Consolidated BS Assets	489.468.222	500.868.939	97,7	475.755.894	441.586.959	400.108.316
Off-balance sheet operations	532.084.315	534.330.733	99,6	503.834.838	496.783.044	507.341.556
Loans and receivables from banks and OFO	29.130.701	18.865.483	154,4	26.990.004	21.037.537	30.233.555
Loans and receivables from customers	209.044.942	219.433.627	95,3	208.234.158	191.448.642	174.242.139
Deposits and other liabilities to banks, OFO[1] and central bank	2.134.916	8.096.190	26,4	8.318.606	8.228.284	6.137.776
Deposits and other liabilities to customers	403.286.418	406.192.067	99,3	370.987.710	350.668.156	317.577.748
Capital	75.651.707	78.135.806	96,8	79.371.576	71.522.051	67.100.116
Capital adequacy	28,6%	28,8%	99,1	27,1%	25,2%	24,6%
Number of employees **	2.745	2.985	92,0	3.056	3.076	3.106
PROFITABILITY PARAMETERS						
ROA	0,5%	0,8%	65,6	1,7%	2,0%	1,8%
ROE (on total capital)	3,4%	4,9%	68,1	10,2%	12,1%	11,6%
Net interest margin on total assets	2,7%	2,7%	-	3,0%	3,3%	3,3%
Cost / income ratio	69,42%	69,17%	100,4	63,67%	60,41%	64,0%
Operating expenses	13.358.013	12.834.821	104,1	12.414.562	11.772.192	12.119.512
Net income/expenses from impairment of fin. assets that are not measured at fair value through P&L	(475.358)	(1.264.236)	37,6	1.587.676	51.681	36.342
Assets per employee (in thousand RSD)	178.313	167.795	106,3	155.679	143.559	128.818
Assets per employee (in thousand EUR)	1.516	1.427	106,3	1.324	1.212	1.087

During the preparation of the consolidated balance sheet of Komercijalna banka ad Beograd for 2021, the balance sheet for 2020 was corrected, due to which there is a difference in the data in relation to the already published Annual Report on the Group's operations for 2020. In accordance with the changes in the balance sheet for 2020, a subsequent adjustment of the performance indicators for 2020 was made to the extent possible.
**Income Statement - KB Beograd and Kombank INVEST in period from 01.01 to 31.12.2021, KB Podgorica in period from 01.01 to 12.11.2021 and KB Banja Luka in period from 01.01 to 08.12.2021.*
***Note: number of employees of KB Group for the year 2021 includes Komercijalna banka ad Beograd as the Parent bank, KomBank INVEST ad Beograd as a subsidiary and NLB Banka ad Podgorica as associated company.*

[1] OFO – Other financial organizations

2. MACROECONOMIC BUSINESS CONDITIONS

Macroeconomic indicators	SERBIA
Gross domestic product	EUR 38,5 billion[2]
GDP trend	7,5%[3]
Consumer price index (XII 2021 / XII 2020)	+7,9%
Assets of the banking sector	+7,3%[4]
Share of banking sector's assets in GDP	109,1%[5]
Industrial production	+1,4%[6]
NPL of the banking sector	3,5%[7]
Unemployment rate	10,5%[8]

According to the final data of the Statistical Office of the Republic of Serbia, a decline in GDP for 2020 of 0,9% was recorded. According to the preliminary estimate of the Republic Statistical Office, GDP growth for 2021 is 7.5%.[9].

Inflationary pressures, which were mild until the first half of 2021, have intensified since the second half of the year and have affected the growth of year-on-year inflation, which at the end of December 2021 amounted to 7,9% y-o-y.[10] In accordance with the NBS Memorandum, the target inflation rate for the period from January 2021 to December 2024 will be within the target of 3.0% ± 1.5pp.[11]

The Labour Force Survey of the Republic Statistical Office shows that the unemployment rate for the third quarter of 2021 is 10.5%.[12].

The total value of foreign trade in the period January-November 2021 amounted to EUR 45,3 billion[13]

The net inflow of foreign direct investment (FDI) for the twelve months of 2021 amounted to EUR 3,9 billion.[14]

Central government public debt at the end of November 2021 amounted to EUR 29,9 billion, representing 56,4% of GDP[15].

Serbia's risk premium, measured by the EMBI index (bond index of emerging countries) for debt in EUR, has increased since the end of the second quarter of 2021 by 30 b.p. only to reach 174 b.p. at the end of October. Other emerging European countries had similar developments regarding debt risk premiums in EUR due to the changed willingness of investors to invest in emerging countries. During 2021, the total turnover on the Belgrade Stock Exchange amounted to RSD 41,2 billion or EUR 350,7 million, which is a decrease compared to 2020 (-15.4%). 18.743 transactions (3,6%) were realized and the market capitalization of RSD 533,3 billion was realized. The Belex line stock exchange index ended 2021 at 1.711,57 (9,29%), while the Belex15 index reached the value of 820,78 (9,64%).[16.]

2 NBS, Key macroeconomic indicators, December 6, 2021 (three quarters of 2021)
3 NBS, Macroeconomic trends in Serbia, January 2022
4 Growth of assets of Serbian banking sector 30.09.2021./2020
5 Data apply to GDP and sector's assets as of 30.9.2021.
6 MFIN, Current macroeconomic trends, November 2021 (September 2021 y-o-y.)
7 NBS, Macroeconomic trends in Serbia, December 2021, NPL for October 2021
8 RZS, Labour Force Survey , Q3 2021.
9 NBS, Macroeconomic trends in Serbia, January 2022
10 RZS, Announcement for pubic, December 2021.
11NBS,Memorandum NBS on inflation targets until 2024, adopted and the NBS EB session on, 9.12.2021
12 RZS, Labour Force Survey, 3Q 2021.
13 MFIN, Current macroeconomic trends, January 2022.
14 NBS, Macroeconomic trends in Serbia, January 2022.
15 MFIN, Table-pubic debt of the Repubic of Serbia, January 2022.
16 Belgrade Stock Exchange, annual statistics, 2021.

3. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE GROUP

The Banking Group consists of two banks (Parent and one associated bank) and one investment fund Management Company.
Komercijalna banka ad Beograd, the Parent bank, within the registered activities performs the following operations:

- Deposit operations (receiving and placing the deposits),
- Credit operations (granting and taking the loans),
- Foreign exchange, foreign exchange-foreign currency exchange operations and exchange transactions;
- Payment transactions;
- Issuance of payment cards;
- Securities operations (issuance of securities, custody bank operations and other);
- Broker-dealer transactions;
- Issuance of guarantees, guarantee of a bill and other forms of sureties (guarantee operation);
- Purchase, sale and collection of receivables (factoring, forfeiting and other);
- Insurance agency operations, as per prior consent of the National Bank of Serbia;
- activities for which it is authorized by law.

The Parent Bank has been authorized to perform international payment transactions since 2003, to perform the activities of a broker-dealer company since 2005, to perform the activities of a custodian bank since 2006, and to perform insurance agency activities since 2011.

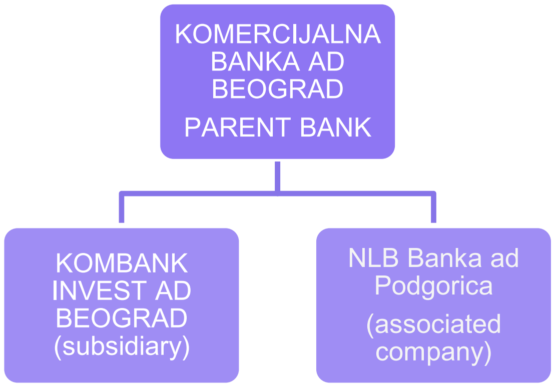
Komercijalna banka ad Banja Luka was a subsidiary and formed the Komercijalna banka ad Beograd Group until December 2021. At the General Meeting of Shareholders of Komercijalna banka ad Beograd, the parent bank, held on October 26, 2021 the Decision was passed on giving consent for the sale of Komercijalna banka ad Banja Luka. On Banja Luka Stock Exchange on December 9, 2021 a "block" transaction of purchase and sale of shares of Komercijalna banka ad Banja Luka was performed by Banka Poštanska štedionica ad Beograd.

Komercijalna banka ad Podgorica was a subsidiary and formed the Group of Komercijalna banka ad Beograd until November 2021. Komercijalna banka ad Podgorica was excluded from trading on the Podgorica Stock Exchange on November 9, 2021. On 12.11.2021 it was deleted from the records of the Central Register of Business Entities of Montenegro. On 14.11.2021 the operational procedure of the merger of Komercijalna banka ad Podgorica to NLB Banka ad Podgorica was successfully completed. After the completion of the merger procedure of Komercijalna banka ad Podgorica to NLB Banka ad Podgorica Komercijalna banka ad Beograd has a stake in the share capital of NLB Banka ad Podgorica of 23,97%. NLB Banka ad Podgorica, as of 31.12.2021, has the status of an associate of the Komercijalna banka ad Beograd Group.

KOMBANK INVEST AD Beograd is registered for performing the following activities:

- organizing and managing the open-end investment funds,
- establishing and managing closed-end investment funds,
- managing private investment funds,
- other business activities pursuant to the law regulating the capital market, and/or the tasks of a portfolio manager and investment advisor.

3.1. Organizational Structure of the Group



3.2. Basic Information about the Group Members

	KOMERCIJALNA BANKA AD BEOGRAD	KOMBANKA INVEST AD BEOGRAD	NLB Banka AD PODGORICA
ADDRESS	Svetog Save 14	Kralja Petra 19	Bulevar Stanka Dragojevića 46
COUNTRY	Republic of Serbia	Serbia	Montenegro
TELEPHONE	00381-11-30-80-100	00381-11-330-8160	+382 19888

Komercijalna banka AD Beograd, the Parent bank, was incorporated on December 1, 1970, and transformed into a joint stock company on May 6, 1992. The bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered with the Business Registers Agency on April 14, 2006. The bank received a banking license from the National Bank of Yugoslavia on July 3, 1991.

The business year 2020 was marked by activities at related to completing the Bank's privatization process. In February 2020, an Agreement was signed between the Ministry of Finance of the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana, Slovenia, on the purchase and sale of 83,23% of ordinary shares of Komercijalna banka a.d. Beograd. After that, in March 2020, the "closing process" began, the process of taking over (acquisition) of the Bank. Nova Ljubljanska banka d.d. Ljubljana, Slovenia on 30.12.2020 completed the process of taking over Komercijalna banka a.d. Beograd. On that day, the Agreement on the transfer of shares of Komercijalna banka a.d. Beograd was signed between the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana, Slovenia.

Shareholders of the Parent bank with more than 5% of capital *(as of 31.12.2021)*

KOMERCIJALNA BANKA AD BEOGRAD
88,28% owned by NLB d.d. Ljubljana

In addition to sub-branch network the Parent bank operates in Belgrade on three locations

Address/Headquarters	Svetog Save 14	Svetogorska 42-44	Makedonska 29
TELEPHONE	381-11-30-80-100	381-11-32-40-911	381-11-33-39-001
FAX	381-11-344-23-72	381-11-32-35-121	381-11-33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E - mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

Business network of the Parent bank

	BUSINESS CENTER	SEAT
1.	BC Beograd 1	Trg Politike 1, Beograd
2.	BC Beograd 2	Trg Politike 1, Beograd
3.	BC Kragujevac	Moše Pijade 2, Požarevac
4.	BC Niš	Episkopska 32, Niš
5.	BC Novi Sad	Bulevar oslobođenja 88, Novi Sad
6.	BC Užice	Petra Ćelovića 4, Užice
	BRANCH	**SEAT**
1.	Kosovska Mitrovica	Čika Jovina 11, Kosovska Mitrovica

	DIVISIONS	SEAT
1.	Corporate Banking Division-large clients	Svetogorska 42-44, Beograd
2.	Corporate Banking Division - SME - Vojvodina	Bulevar oslobođenja 88, Novi Sad
3.	Corporate Banking Division - SME - Beograd	Svetogorska 42-44, Beograd
4.	Corporate Banking Division - SME – Central Serbia	Svetogorska 42-44, Beograd

After 2017 and the first major reorganization of the business network, after analysing the effects of the implemented changes on business, in early 2018 the Bank implemented additional changes in the business network.

In March 2018 a new change of organization was implemented in Corporate business function when instead of Business corporate centres the Divisions for SMEs in Belgrade, Central Serbia and Vojvodina were formally formed. The essential change included the functional merging of sales and credit analysis within the same organizational form (Corporate Division for SMEs, Belgrade, Central Serbia and Vojvodina).

In 2019 and 2020, there were no changes in the organization within the Corporate business function.

Operations in Retail segment, during 2021, were performed by the Parent bank through the network of 190 sub-branches grouped in six Business Centres and Kosovska Mitrovica Branch. Business operations with legal entities were performed through three Divisions for SME (Vojvodina, Belgrade and Central Serbia) and Corporate Banking Division – Large clients.

KOMERCIJALNA BANKA AD BANJA LUKA

100,0% owned by Banka Poštanska Štedionica a.d., Beograd[17]

KOMBANK INVEST AD BEOGRAD

100,0% owned by KB Beograd

UCITS Fund Management Company KOMBANK INVEST a.d. Beograd is a company entered in the Register of Business Entities of the Business Registers Agency on February 5, 2008. The Company operates as a bicameral non-public joint stock company in accordance with the Law on Open-End Investment Funds with Public Offering, the Rulebook on Open-End Investment Funds with Public Offering and the Rulebook on Conditions for Operating Open-End Investment Fund Management Companies with public offer.

The Company manages three investment funds, as follows:

1. KOMBANK IN FOND, type of fund - balanced, fund currencies RSD and EUR,
2. KOMBANK MONETARY FUND, type of fund - preservation of property value, fund currency RSD,
3. KOMBANK FOREIGN EXCHANGE FUND, type of fund - preservation of property value, fund EUR

At the end of 2021, the Company had six employees.

NLB BANKA AD PODGORICA

23,97% owned by KB Beograd

NLB Banka ad Podgorica is a bank that performs registered business activities in the territory of Montenegro and is registered under the laws of Montenegro. Headquarters of NLB banka a.d. Podgorica is at 46, Bulevar Stanka Dragojevića Street in Podgorica. The Bank performs its activities through a network of branches, sub-branches and counters, which after the merger of Komercijalna banka ad Podgorica, consists of 19 branches, 2 branches and one counter, in: Podgorica (7), Ulcinj, Bar, Budva (2), Cetinje, Bijelo Polje, Rožaje, Herceg Novi, Kotor (2), Nikšić, Tivat, Pljevlja, Berane and Tuzi.
As at 31 December 2021, the Bank had 367 employees (31 December 2020: 312 employees).

[17] 100% owned by KB Beograd until December 2021when it was sold to Banka Poštanska štedionica ad Beograd

4. CORPORATE GOVERNANCE IN THE GROUP

4.1. Rules of Corporate Governance

Corporate Governance Code of the Parent Bank

Corporate governance rules are based on relevant legislation (primarily the Law on Banks and the Company Law).

The competences and powers of all bodies of Komercijalna banka AD Beograd (General Meeting of Shareholders, Board of Directors, Executive Board, Audit Committee, Assets and Liabilities Management Committee, Credit Committee), are based on relevant legal regulations and are defined by internal acts (Memorandum of Association, Bank's Articles of Association, rules of procedure of the Bank's bodies and other internal acts).

Komercijalna banka AD Beograd, Parent Bank, in its operations, in accordance with the Decision of the Executive Board of the Bank no. 8373 dated 9 April 2013 year, applies the Code of Corporate Governance of the Serbian Chamber of Commerce ("Official Gazette of the RS", No. 99/2012), which was adopted by the Assembly of the Serbian Chamber of Commerce. The Corporate Governance Code establishes the principles of corporate practice according to which the holders of the Bank's corporate governance, act and adhere in their operations. The aim of the Code is to introduce good business practices in the field of corporate governance, equal influence of all stakeholders, existing and potential shareholders, employees, clients, bodies of the Bank, the state, etc. The ultimate goal is to ensure long-term and sustainable development of the Bank. The text of the Corporate Governance Code is published on the website of Komercijalna banka AD Beograd (https://en.kombank.com/corporate-governance).

Management bodies of the Parent bank

The management bodies of the Parent Bank are explained in the Annual Business Report of Komercijalna Banka a.d. Beograd for 2021.

Corporate Governance Code of the UCITS Fund Management Company KOMBANK INVEST

Kombank Invest a.d. Beograd is organized in the form of a one-member joint stock company that is not public with a bicameral management system. In order to ensure impartiality, transparency and accountability in corporate behaviour, the Company applies the Rules of Conduct and Professional Ethics that are harmonized with the parent company, the Policy for Management of Conflicts of Interest and Personal Transactions, etc.

Management Board of the UCITS Fund Management Company KOMBANK INVEST

The Management Board of the Company was formed in accordance with the Law on Open-End Investment Funds with a public offering and the Articles of Association of the Company. The management of the Company is organized as bicameral.

Management bodies are: General Meeting of Shareholders, Supervisory Board and Director.

The function of the General Meeting of Shareholders on behalf of Komercijalna Banka as the sole shareholder is performed by the Executive Board of Komercijalna Banka AD Beograd. The manner of work and decision-making of the Executive Board of Komercijalna banka AD Beograd, which performs the role of the Company's General Meeting of Shareholders, is determined by the Rules of Procedure of the Executive Board of Komercijalna banka AD Beograd.
Supervisory Board has three members that are appointed by the Company's General Meeting of Shareholders.

Members of the Supervisory Board of the Company as of December 31, 2021 are as follows:

NAME AND SURNAME	TITLE	DATE OF APPOINTMENT	TERM OF OFFICE
Vlastimir Vuković	*Chairperson*	*12.02.2021*	*4 years from the date of appointment*
Blaž Bračić	*Member*	*12.02.2021*	*4 years from the date of appointment*
Tanja Ahlin	*Member*	*12.02.2021*	*4 years from the date of appointment*

The competencies of the Supervisory Board of the Company are defined by the Law on Open-End Investment Funds with Public Offering and the Articles of Association of the Company.

The quorum for work and decision-making of the Supervisory Board of the Company is the majority of the total number of members of the Supervisory Board of the Company. The Chairperson of the Supervisory Board is also considered a member of the Supervisory Board.

The Company has one director, who is the executive director. The Director is appointed by the Company's Supervisory Board. Director's term of office is 4 years and upon its expiry he/she can be re-elected.

Director of the Company as of December 31, 2021 is:

NAME AND SURNAME	TITLE	DATE OF APPOINTMENT	TERM OF OFFICE
Vladimir Garić	*Director*	*12.02.2021*	*4 years from the date of appointment*

The competencies and powers of all member bodies of the Group are based on the relevant legal regulations and defined in internal acts. The rules of corporate governance are implemented through internal acts and there are no deviations in their application.

4.2. Description of basic elements of the internal control and risk reduction system regarding the financial reporting procedure

Parent Bank

Basic elements of the internal control and risk reduction system regarding the financial reporting procedure have been established through:

- work of committees/boards established in accordance with the Law on Banks (Board of Directors, Executive Board and Audit Committee)
- established internal controls systems (risk management function, compliance function and internal audit function) and
- appropriate strategies, policies and other acts adopted at the Bank's level in order to provide adequate financial reporting.

A detailed description of the system of internal controls and risk reduction in connection with the financial reporting procedure is explained in the Annual Business Report of Komercijalna banka a.d. Beograd for 2021.

Internal control and internal audit of the UCITS Fund Management Company KOMBANK INVEST

The Company establishes a structure of internal controls consisting of:

- Compliance function and
- Internal audit function.

4.3. Information on takeover bids

During 2021, the Parent Bank and company KomBank INVEST did not publish bids for the takeover of shares of other joint stock companies.

In accordance with the above, during 2021, Komercijalna banka a.d. Beograd Group through the process of taking over other legal entities did not:

- Acquire any direct or indirect share in capital of another legal entity;
- Become the owner of any securities that wold allow it special control over other legal entities;
- Become the owner of securities with limited voting rights over another legal entity;
- Participate in appointing and releasing from duty the members of the management board of another legal entity and
- Participate in determining the authority of the management of another legal entity.

4.4. Diversity policy description

The members of the Group carry out this part of fulfilling their legal obligations in accordance with local regulations.

In the Republic of Serbia, the diversity policy is, at the level of legislation, regulated primarily by:

- Law on Gender Equality (December 2009), or
- Gender Equality Act (May 2021).

By entry into force of the Gender Equality Act the Law on Gender Equality ceased to be valid, with a note that certain provisions of the Gender Equality Act enter into force only on January, 01, 2024.
The Law on Gender Equality regulates the creation of equal opportunities for exercising rights and obligations, taking special measures to prevent and eliminate discrimination based on gender, and the procedure of legal protection of persons exposed to discrimination.

The Law on Gender Equality belongs to the group of anti-discrimination laws which:

- elaborates in more detail the right to equality of women and men guaranteed by the Constitution of the Republic of Serbia, and
- introduce special measures to ensure the implementation of equal opportunities policy.

In accordance with Article 13 of the Law on Gender Equality, the Bank undertakes the following on an annual basis, and no later than January 31 of each year:

- for the current year, draws up a Plan of Measures to eliminate or alleviate unequal representation of genders and
- for the previous year, adopts the Annual Report on implementation of the plan of measures to eliminate or alleviate unequal representation of genders.

The content of the Plan of Measures and the content of the Annual Report on the Implementation of the Plan of Measures shall be defined by a special act of the Minister responsible for gender equality issues.

In accordance with legal regulations, the Bank is obliged to submit the Plan of Measures and the Annual Report on the Implementation of the Plan of Measures to the Ministry in charge of gender equality issues no later than March 31 of the current year.

In accordance with the laws and bylaws, the Bank, when compiling the Plan of Measures and the Annual Report on the Implementation of the Plan of Measures, incorporates all employees, including members of the Executive Board of the Bank.

The reports submitted to the competent authority shall disclose data (without providing personal data on employees) in the form of the number and structure of employees, according to various criteria:

- total number of employees;
- total number of managerial positions;;
- total number of jobs;
- number of identical jobs, with different net earnings;
- total number of employees sent for professional development or training for the reporting period;
- total number of hired employees;
- total number of laid off employees;
- number of women on maternity leave;
- number of women returned to work after maternity leave;
- number of jobs, according to the general act of the Bank, for which there is a justified need to make gender differences in accordance with the law governing work.

The data from the Plan of Measures and the Annual Report on the Implementation of Measures are used to achieve the following objectives:

- created equal opportunities for exercising rights and obligations from the employment relationship and on the basis of work, in accordance with the law governing work;
- Encourage and improve the equal representation of women and men in the Bank in employment process, as well as in the work process.

In the coming period, the actions of economic entities in the Republic of Serbia will be harmonized with the provisions of the Law on Gender Equality (activities related to the implementation of the Law on Gender Equality will start after the adoption of bylaws by the competent ministry , the same being the precondition for undertaking activities).

During 2021, the Bank did not have the adopted Diversity Policy document, but the Bank's management adheres to the principles of gender diversity of management members and employees, diversity of educational profiles of employees, diversity of different religions, and diversity of age structure of employees. In the coming period, after the implementation and completion of the merger process, the intention is to adopt a joint document Diversity Policy at the level of the Bank, which exists at the level of the NLB Group.

The Bank's management in selecting members of management bodies and senior management is guided by the principle of gender equality, diversity of educational profiles, range of knowledge, skills and experience, age.

In accordance with the Labour Law and the Collective Agreement of Komercijalna banka ad Beograd, all forms of discrimination, harassment, sexual harassment and abuse of employees at work and in connection with work are prohibited.

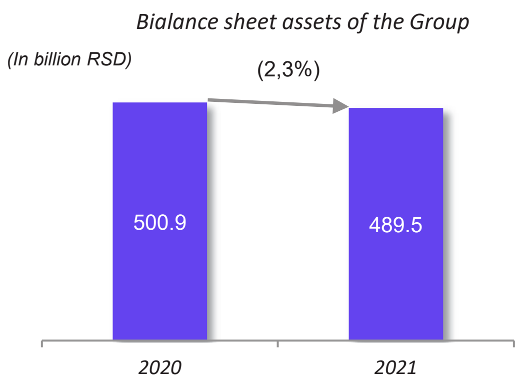
The Bank and the Bank's Trade Union cooperate in the prevention of any kind of conduct referred to in the preceding paragraph.
At the end of 2021, the Bank's Board of Directors consists of 7 men and 2 women. The Executive Board of the Bank consists of 1 woman and 3 men.

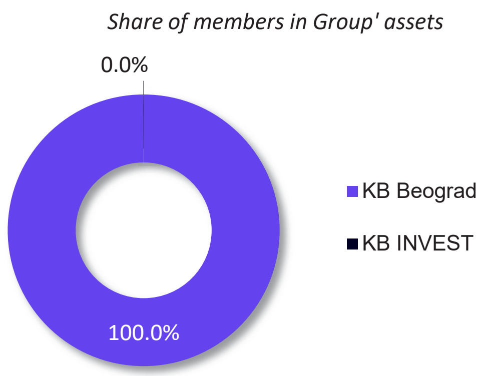
5. FINANCIAL POSITION AND THE RESULTS OF GROUP'S BUSINESS OPERATIONS

5.1. Balance sheet assets of the Group and of the Group members

DESCRIPTION	2021	2020	2019	2018	2017
(in thousand RSD)					
BALANCE SHEET ASSETS OF THE GROUP *	489.468.222	500.295.263	475.755.894	441.586.959	400.108.316
Komercijalna banka a.d. Beograd	489.291.030	455.152.974	428.857.730	398.447.676	366.074.702
Komercijalna banka a.d. Banja Luka[18]	-	27.879.636	29.256.166	27.624.178	20.075.186
Komercijalna banka a.d. Podgorica[19]	-	17.088.819	17.472.505	15.353.955	13.801.705
KomBank INVEST a.d. Beograd	177.192	173.834	169.493	161.150	156.723

*Note: For preparation of the consolidated balance sheet for 2021, full consolidation method was applied for Komercijalna banka ad Beograd, Parent bank and KomBank INVEST ad Beograd, the subsidiary. Due to comparability with data from previous years, the table does not show the assets of NLB Banka ad Podgorica, which is consolidated by equity method as an associate.





Balance sheet assets of the Group at the end of 2021 have been reduced in comparison to the end of 2020 by RSD 11.400,7 million (2,3%) where the balance sheet assets for 2020 were adjusted at the end of 2021. The share of the Parent Bank in the consolidated assets is still dominant.

18 Since December 2021, after sale of package of shares to Banka Poštanska štedionica ad Beograd, through Banjalučka Stock Exchange, Komercijalna banka ad Banja Luka is no longer part of Komercijalna banka Group
19 Since November 2021, following the process of merging with NLB Banka ad Podgorica, Komercijalna banka ad Podgorica does not exist as an independent legal entity

5.2. Consolidated Balance Sheet as of 31.12.2021

Consolidated assets of the Group as of 31.12.2021

NO.	DESCRIPTION	31.12.2021.	31.12.2020.	INDICES	SHARE 2021.
1	2	3	4	5=(3:4)*100	6
	ASSETS (in thousand RSD)				
1.	Cash and funds with central bank	82.055.481	86.892.070	94,4	16,8
2.	Pledged financial assets	-	-	-	-
3.	Receivables from derivatives	-	-	-	-
4.	Securities	149.744.019	158.438.656	94,5	30,6
5.	Loans and receivables from banks and other financial organizations	29.130.701	18.865.483	154,4	6,0
6.	Loans and receivables from customers	209.044.942	219.433.627	95,3	42,7
7.	Changes in fair value of items subject to hedging	-	-	-	-
8.	Receivables from derivatives intended for hedging	-	-	-	-
9.	Investments in associates and joint ventures	1.479.000	-	-	0,3
10.	Investments in subsidiaries	-	-	-	-
11.	Intangible assets	582.101	578.413	100,6	0,1
12.	Property, plant and equipment	8.755.740	6.743.199	129,8	1,8
13.	Investment property	2.610.531	2.718.683	96,0	0,5
14.	Current tax assets	18.985	19.661	96,6	-
15.	Deferred tax assets	512.015	2.484	-	0,1
16.	Non-current assets intended for sale and assets of discontinued operations	101.614	370.663	27,4	-
17.	Other assets	5.433.093	6.806.000	79,8	1,1
	TOTAL ASSETS (from 1 to 17)	**489.468.222**	**500.868.939**	97,7	100,0

Of the individual balance sheet items, as at December 31, 2021, loans and receivables from customers (42,7%) had the largest share in balance sheet assets of the Group. Item loans and receivables from customers has a downward trend at the end of 2021, it is reduced by 4,7% relative to the end of 2020.

The position securities represents a significant position of consolidated assets, with a share of 30,6%, and it has been reduced during 2021 by 5,5% compared to the end of 2020.

Cash and funds with central bank accounted for 16,8% in total consolidated assets and they have been reduced in comparison to the end of previous year by 5,6%.

Balance sheet position loans and receivables from banks and other financial organizations accounts for 6,0% of consolidated balance sheet assets and records an increase of 54,4% relative to the end of 2020.

Consolidated liabilities of the Group as of 31.12.2021

NO	DESCRIPTION	31.12.2021.	31.12.2020.	INDICES	SHARE 2021
1	2	3	4	5=(3:4)*100	6
	LIABILITIES *(in thousand RSD)*				
1.	Liabilities from derivatives	-	-	-	-
2.	Deposits and other financial liabilities to banks, other financial organizations and CB	2.134.916	8.096.190	26,4	0,4
3.	Deposits and other financial liabilities to other customers	403.286.418	406.192.067	99,3	82,4
4.	Liabilities from derivatives intended for hedging	-	-	-	-
5.	Changes in fair value of items that are subject to hedging	-	-	-	-
6.	Liabilities from securities	-	-	-	-
7.	Subordinated liabilities	-	-	-	-
8.	Provisions	4.251.729	2.696.346	157,7	0,9
9.	Liabilities from assets intended for sale and assets of discontinued operations	-	-	-	-
10.	Current tax liabilities	-	2.079	-	-
11.	Deferred tax liabilities	-	176.573	-	-
12.	Other liabilities	4.143.452	5.569.878	74,4	0,8
	TOTAL LIABILITIES (from 1 to 12)	**413.816.515**	**422.733.133**	97,9	84,5
	CAPITAL				
13.	Share capital	40.034.550	40.034.550	100,0	8,2
14.	Profit	9.579.290	5.385.674	177,9	2,0
15.	Loss	-	1.261.380	-	-
16.	Reserves	26.037.867	33.976.892	76,6	5,3
17.	Non-controlling interests	-	70	-	-
	TOTAL CAPITAL (from 13 to 17)	**75.651.707**	**78.135.806**	96,8	15,5
	TOTAL LIABILITIES	**489.468.222**	**500.868.939**	97,7	100,0

On the side of consolidated liabilities, the dominant position at the end of 2021 was that of deposits and other financial liabilities to other customers, with share of 82,4%. The position deposits and other financial liabilities to other customers has been reduced in comparison to 2020 by 0,7%.

In consolidated liabilities the total capital accounted for 15,5%, while its share as of 31.12.2020 was 15,6%. Relative to 2020 the capital of the Group, as at 31.12.2021, is reduced as expected (reduction 3,2%) primarily due to decrease of the position reserves in capital. Reserves in capital have been reduced by 23,4% at the end of 2021 in comparison to the year 2020.

Changes in key balance sheet positions are expected given the changes that occurred in composition of KB Group during 2021, and/or the sale of Komercijalna banka ad Banja Luka and merging of Komercijalna banka ad Podgorica to NLB Banka ad Podgorica.

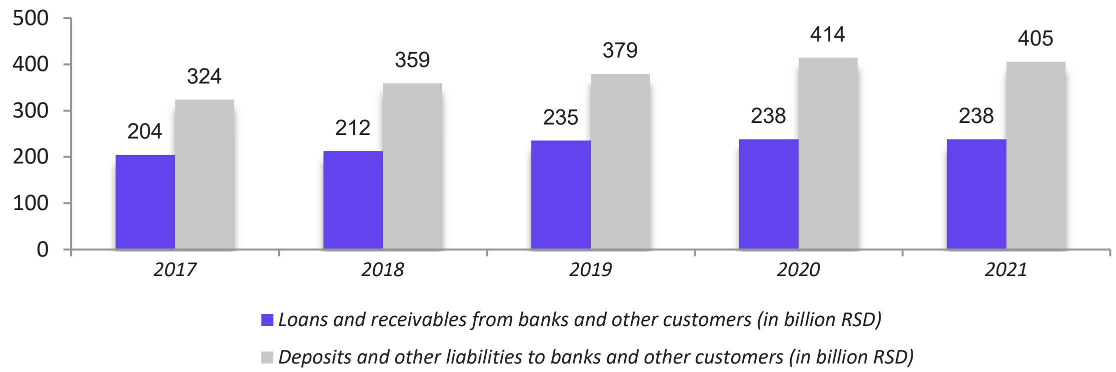
5.3. Consolidated Balance Sheet as of 31.12.2021 – Group members

	DESCRIPTION	KB Beograd	KomBank INVEST	TOTAL GROUP
1	2	3	4	5=(3+4)
	ASSETS /position (in thousand RSD)			
	Cash and funds with CB	82.055.481	0	82.055.481
	Securities	149.588.755	155.264	149.744.019
	Loans and receivables from banks and other financial organizations	29.114.381	16.320	29.130.701
	Loans and receivables from customers	209.044.942	0	209.044.942
	Investments in associates and joint ventures	1.479.000	0	1.479.000
	Intangible assets	582.101	0	582.101
	Property, plant and equipment	8.755.659	81	8.755.740
	Investment property	2.610.531	0	2.610.531
	Current tax assets	18.911	74	18.985
	Deferred tax assets	509.242	2.773	512.015
	Non-current assets intended for sale and assets of discontinued operations	101.614	0	101.614
	Other assets	5.430.413	2.680	5.433.093
	TOTAL ASSETS	**489.291.030**	**177.192**	**489.468.222**
	LIABILITIES /position			
	Deposits and other financial liabilities to banks and other financial organizations	2.134.916	0	2.134.916
	Deposits and other financial liabilities to other customers	403.286.418	0	403.286.418
	Provisions	4.233.853	17.876	4.251.729
	Current tax liabilities	0	0	0
	Deferred tax liabilities	0	0	0
	Other liabilities	4.142.442	1.010	4.143.452
	TOTAL LIABILITIES	**413.797.629**	**18.886**	**413.816.515**
	Total capital	**75.633.659**	**18.048**	**75.651.707**
	Total lack of capital	0	0	0
	TOTAL LIABILITIES	**489.431.288**	**36.934**	**489.468.222**

5.4. Loans and Deposits of Customers and Banks of the Group and the Group Members

DESCRIPTION	2021	2020	2019	2018	2017
(in thousand RSD)					
LOANS AND RECEIVABLES FROM CUSTOMERS AND BANKS	238.175.643	238.299.110	235.224.162	212.486.179	204.475.694
Growth percentage	(0,1%)	1,3%	10,7%	3,9%	(2,5%)
Komercijalna banka a.d. Beograd	238.159.323	206.597.421	205.497.840	185.917.193	182.944.400
Komercijalna banka a.d. Banja Luka[20]	-	18.873.327	18.734.989	16.811.744	13.647.511
Komercijalna banka a.d. Podgorica[21]	-	12.811.983	10.974.943	9.740.866	7.883.783
KomBank INVEST a.d. Beograd	16.320	16.379	16.390	16.376	-
DEPOSITS AND LIABILITIES TO CUSTOMERS AND BANKS	405.421.334	414.288.257	379.306.316	358.896.440	323.715.524
Growth percentage	(2,1%)	9,2%	5,7%	10,9%	(8,8%)
Komercijalna banka a.d. Beograd	405.421.334	376.433.132	339.234.701	321.271.358	295.755.134
Komercijalna banka a.d. Banja Luka	-	23.109.297	24.601.533	23.547.061	15.803.267
Komercijalna banka a.d. Podgorica	-	14.745.828	15.470.082	14.078.021	12.157.123
KomBank INVEST a.d. Beograd	-	-	-	-	-

Movement of loans and deposits of the Group from 2017 to 2021



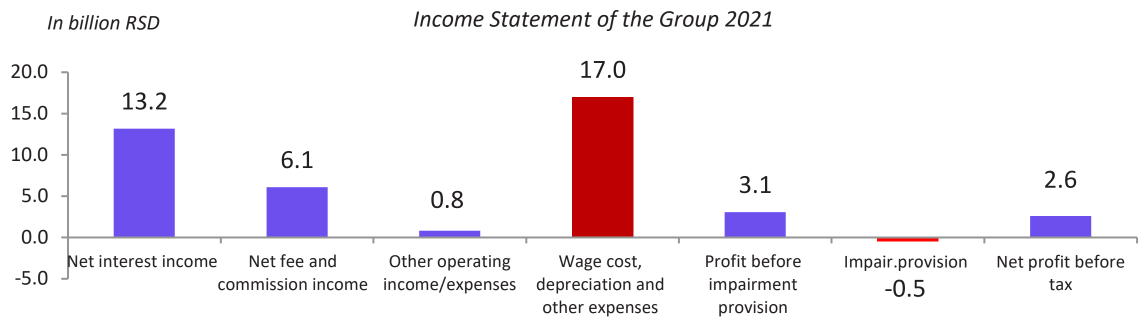
Share of the Parent Bank in loans and receivables from banks and other customers of the whole Group, at the end of 2021 equalled 100,0% while at the end of 2020 it was 86,7%. Share of the Parent Bank is also dominant in deposits and other financial liabilities to banks and other customers of the Group with 100,0%, which to be expected given the above mentioned changes in the composition of KB Group that occurred in 2021 (sale of Komercijalna banka ad Banja Luka and merging of Komercijalna banka ad Podgorica to NLB Banka ad Podgorica).

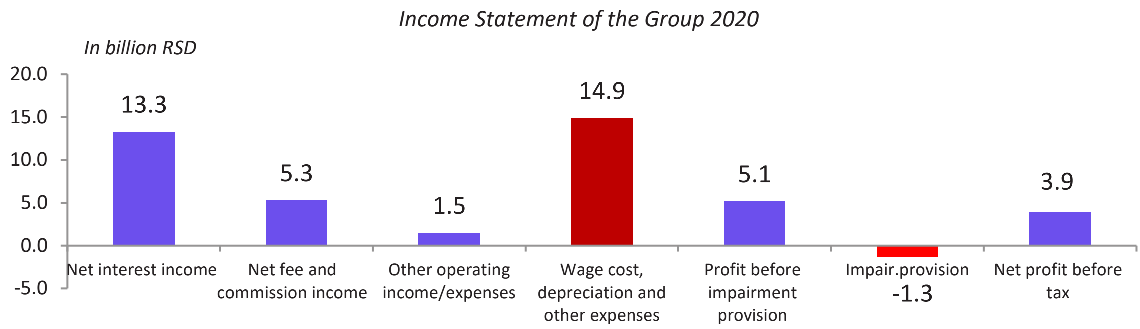
20 Same as 22.
21 Same as 23.

5.5. Consolidated Income Statement in period from 01.01 to 31.12.2021

Consolidated income statement in period from 01.01. to 31.12.2021

NO.	DESCRIPTION	31.12.2021.	31.12.2020.	INDICES
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES (in thousand RSD)			
1.1.	Interest income	14.422.584	14.731.985	97,9
1.2.	Interest expenses	(1.257.548)	(1.443.962)	87,1
1.	**Net interest income**	**13.165.036**	**13.288.023**	99,1
2.1.	Fee and commission income	8.140.671	7.205.485	113,0
2.2.	Fee and commission expenses	(2.063.067)	(1.938.963)	106,4
2.	**Net fee and commission income**	**6.077.604**	**5.266.522**	115,4
3.	Net profit /loss from change in fair value of financial instruments	6.772	98.046	6,9
4.	Net profit /loss from reclassification of financial instruments	-	-	-
5.	Net profit /loss from derecognition of financial instruments that are measured at fair value	197.257	174.399	113,1
6.	Net profit /loss from hedging	-	-	-
7.	Net income/expense from exchange differences and the effects of the agreed currency clause	1.688.689	17.980	9392,0
8.	Net income/expense from reduction of impairment of financial assets that are not measured at fair value through IS	(475.358)	(1.264.236)	37,6
9.	Net profit /loss from derecognition of financial instruments that are measured at amortized cost	-	-	-
10.	Net profit/loss from derecognition of investments in associates and joint ventures	(1.954.463)	-	-
11.	Other operating income	230.145	227.097	101,3
	TOTAL NET OPERATING INCOME	**18.935.682**	**17.807.831**	106,3
12.	Wage cost, wage compensation and other personal expenses	(5.685.180)	(6.491.790)	87,6
13.	Depreciation costs	(1.085.357)	(1.136.168)	95,5
14.	Other income	649.147	951.937	68,2
15.	Other expenses	(10.231.132)	(7.247.683)	141,2
	PROFIT/LOSS (-) BEFORE TAX	**2.583.160**	**3.884.127**	66,5
16.	Income tax	(4.676)	(7.309)	64,0
17.	Profit from deferred taxes	373.225	122.101	305,7
18.	Loss from deferred taxes	(174.116)	(1.391.735)	12,5
19.	**PROFIT /LOSS (-) AFTER TAX**	**2.777.593**	**2.607.184**	106,5
	Profit attributable to parent entity	2.777.593	2.607.183	106,5
	Profit belonging to non-controlling owners	-	1	-
	Basic earnings per share	216	150	144,0
	Reduced (diluted) earnings per share	216	150	144,0





During 2021, at the level of KB Group profit before tax was made in the amount of RSD 2,583.2 million. Consolidated profit before tax of KB Group during 2021 has been reduced by 33.5%, or by RSD 1,301.0 million when compared to the year 2020.

Group's interest income, in 2021, slightly decreased compared to 2020 (reduction by 2.1%), just as interest expenses were also reduced did (reduction by 12.9%). The above also resulted in decrease in Group's net interest income in amount of RSD 123.0 million, or 0.9%.

Consolidated fee and commission income, in the course of 2021 increased in comparison to the same period in 2020 by 13.0%. Fee and commission expenses recorded an increase but less in percentage terms where they increased by 6.4%, which resulted in the Group's net fee and commission income being 15.4% higher than in 2020.

During 2021 net expense from impairment of financial assets that are not measured at fair value through income statement was realized in the amount of RSD 475.4 million, unlike in 2020, when the net expenses in the amount of RSD 1,264.2 million were realized. Changes in the mentioned position during 2021 also affected the final result of the Group's operations.

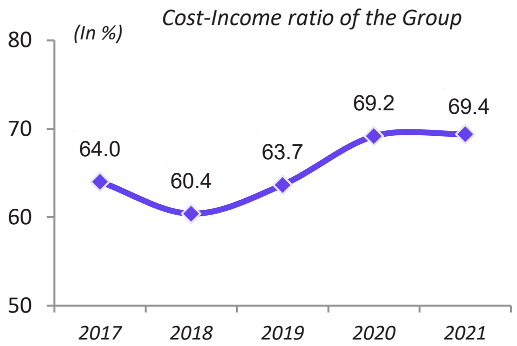
During 2021 net profit was also recorded from derecognition of financial instruments that are measured at fair value in the amount of RSD 197.3 million, while in course of 2020 net profit was recorded in the amount of RSD 174.4 million.

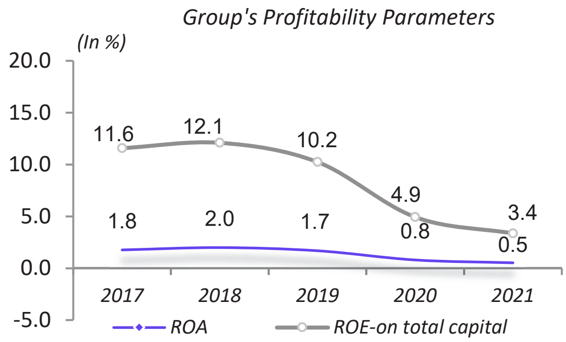
Wage costs, wage compensation, depreciation costs and other expenses are increased compared to 2020 by 14.3%, and/or they are higher by RSD 2,126.0 million.

The position other income of the Group recorded a decrease of RSD 302.8 million, or a reduction of 31.8% during 2021 in comparison to 2020.
During 2021 the Group recorded net loss from derecognition of investment in associates and joint ventures in the amount of RSD 1,954.5 million, whereas in previous year there is no such position in the income statement.

Realized consolidated profit before tax during 2021 amounts to RSD 2,583,2 million and is lower by 33.5% compared to result achieved during the year 2020.

5.6. Group Profitability Indicators





5.7. Consolidated Income Statement in Period from 01.01 to 31.12.2021 –Group Members

	DESCRIPTION	KB Beograd	KB Podgorica[22]	KB Banja Luka[23]	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	(in thousand RSD)					
1.1.	Interest income	13.094.749	610.633	716.714	488	14.422.584
1.2.	Interest expenses	(958.313)	(93.697)	(205.538)	0	(1.257.548)
1.	**Net interest income**	**12.136.436**	**516.936**	**511.176**	**488**	**13.165.036**
2.1.	Fee income	7.632.534	210.005	270.594	27.538	8.140.671
2.2.	Fee expenses	(1.909.661)	(85.559)	(67.578)	(269)	(2.063.067)
2.	**Net fee income**	**5.722.873**	**124.446**	**203.016**	**27.269**	**6.077.604**
3.	Net profit/loss from change in fair value of financial instruments	4.823	0	0	1.949	6.772
4.	Net profit/loss from derecognition of financial instruments that are measured at fair value	197.243	0	0	14	197.257
5.	Net income /expense from exchange differences and the effects from agreed currency clause	1.672.240	14.180	2.276	(7)	1.688.689
6.	Net income /expense from reduction of impairment of financial assets that are not measured at fair value through IS	15.772	(475.545)	(15.585)	0	(475.358)
7.	Net profit /loss from derecognition of investments in associates and joint ventures	(1.954.463)	0	0	0	(1.954.463)
8.	Other operating income	210.848	6.499	12.798	0	230.145
I	**TOTAL NET OPERATING INCOME**	**18.005.772**	**186.516**	**713.681**	**29.713**	**18.935.682**
9.	Wages cost, wage compensation and other personal expenses	(4.961.166)	(404.856)	(302.329)	(16.829)	(5.685.180)
10.	Depreciation costs	(912.825)	(77.981)	(94.488)	(63)	(1.085.357)
11.	Other income	587.010	34.480	27.646	11	649.147
12.	Other expenses	(9.626.605)	(329.316)	(265.813)	(9.398)	(10.231.132)
II	**PROFIT BEFORE TAX**	**3.092.186**	**(591.157)**	**78.697**	**3.434**	**2.583.160**
13.	Income tax	0	(1.261)	(3.413)	(2)	(4.676)
14.	Profit from deferred tax	348.040	24.181	715	289	373.225
15.	Loss from deferred tax	(165.725)	(8.391)	0	0	(174.116)
III	**PROFIT /LOSS (-) AFTER TAX**	**3.274.501**	**(576.628)**	**75.999**	**3.721**	**2.777.593**
	Profit belonging to non-controlling owners	-	-	-	-	-

[22] In period from 01.01 to 12.11.2021
[23] In period from 01.01 to 08.12.2021

6. FINANCIAL INSTRUMENTS SIGNIFICANT FOR ASSESSING THE GROUP'S FINANCIAL POSITION

For an adequate assessment of the Group's financial position at the end of the 2021 business year, the following financial instruments and balance sheet items are of key importance: loans and receivables from customers, securities, cash and funds with the central bank, deposits and other financial liabilities to other customers and capital.

The position loans and receivables from customers accounted for 42,7% of total consolidated assets and has been decreased by RSD 10.388,7 million in comparison to the end of 2020. Detailed structure of loans and advances to customers is presented in the Notes to Consolidated Financial Statements.

The position securities made for 30,6% of total consolidated assets of the Group and has been reduced by RSD 8.694,6 million compared to 2020 and mainly consists of investments of the Parent Bank in securities of the Republic of Serbia (RSD 149.588,8 million, 99,9%) (detailed structure is presented in the Notes to Consolidated Financial Statements).

Cash and funds with central bank at the end of 2021 accounted for 16,8% of consolidated assets and have been reduced by RSD 4.836,6 million compared to the end of 2020 (detailed structure is presented in the Notes to Consolidated Financial Statements).

On the other hand, the position deposits and other financial liabilities to other customers accounted for 82,4% of consolidated liabilities and it was decreased by RSD 2.905,6 million. Deposits were the main source of financing for KB Group in 2021 as well (detailed structure is presented in the Notes to Consolidated Financial Statements).

The position total capital of the Group made for 15,5% of consolidated liabilities and is reduced by RSD 2.484,1 million, mainly due to decrease of capital reserves.

The members of the Group are well capitalized, and the capital adequacy ratio of the Group is 28,55% and is significantly above the prescribed limit.

7. OPERATION OF BRANCHES BEFORE CONSOLIDATION

Komercijalna banka ad Beograd, the Parent Bank, keeps business books and prepares financial statements in accordance with the accounting regulations of the Republic of Serbia.

KOMBANK INVEST ad Beograd prepares financial statements in accordance with the accounting regulations of the Republic of Serbia.

For the purpose of preparing consolidated financial statements, the individual audited financial statements of the Parent Bank, subsidiary banks, Komercijalna banka ad Banja Luka and Komercijalna banka ad Podgorica while they were in the status of subsidiary banks, and KOMBANK INVEST Company were adjusted to the presentation of financial statements based on:

- Accounting regulations of the Republic of Serbia,
- Internal acts of the Parent Bank - Komercijalna banka AD Beograd and
- Relevant IAS and IFRS.

Reclassified individual balance sheets of the Group members before consolidation as of 31.12.2021

DESCRIPTION	KB Beograd	KomBank INVEST
(in thousand RSD)		
Cash and funds with central bank	82.055.481	53
Pledged financial assets	0	0
Receivables from derivatives	0	0
Securities	149.588.755	155.264
Loans and receivables from banks and OFO	29.114.381	16.320
Loans and receivables from customers	209.044.942	0
Investments in associates and joint ventures	1.488.063	0
Investments in subsidiaries	140.000	0
Intangible assets	582.101	0
Property, plant and equipment	8.755.659	81
Investment property	2.610.531	0
Current tax assets	18.911	74
Deferred tax assets	509.242	2.773
Non-current assets intended for sale and assets from discontinued operations	101.614	0
Other assets	5.430.725	2.680
TOTAL ASSETS	**489.440.405**	**177.245**
Liabilities from derivatives	0	0
Deposits and other financial liabilities to banks, other financial organizations and central bank	2.134.969	0
Deposits and other financial liabilities to other customers	403.286.418	0
Provisions	4.233.853	17.876
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Other liabilities	4.142.443	1.321
TOTAL LIABILITIES	**413.797.683**	**19.197**
Total capital	**75.642.722**	**158.048**
TOTAL LIABILITIES	**489.440.405**	**177.245**

NOTE: For the purposes of consolidation, reclassification of items in the individual (statutory) financial statements of the Group members that affect the adjustment of the balance sheet total and results in the income statement presented in the statutory reports is performed. The adjusted (reclassified) financial statements represent the opening balance sheet reports and items that are subject to further consolidation.

Reclassified individual income statements of the Group members before consolidation for the period from 1.1. to 31.12.2021

DESCRIPTION	KB Beograd	KB Podgorica[24]	KB Banja Luka[25]	KomBank INVEST
(in thousand RSD)				
Interest income	13.103.701	610.913	716.714	488
Interest expenses	(958.592)	(98.388)	(209.800)	0
Net interest income	**12.145.109**	**512.526**	**506.913**	**488**
Fee and commission income	7.647.524	210.079	271.018	27.538
Fee and commission expenses	(1.910.160)	(92.629)	(72.700)	(3.067)
Net fee and commission income	**5.737.364**	**117.450**	**198.318**	**24.471**
Net profit/loss from change in fair value of financial instruments	4.823	0	0	1.949
Net profit/loss from derecognition of financial instruments that are measured at fair value	197.243	0	0	14
Net income/expense from exchange differences and effects of agreed currency clause	53.070	14.180	2.276	(7)
Net income/expense from reduction of impairment of financial assets that are not measured at fair value through IS	15.772	(475.545)	(15.585)	0
Net profit/loss from derecognition of financial instruments. that are measured at amortized cost	0	0	0	0
Net profit/loss from derecognition of investments in associates and joint ventures	563	0	0	0
Other business income	211.190	6.499	12.798	0
TOTAL NET OPERATING INCOME	**18.365.134**	**175.110**	**704.721**	**26.915**
Wage cost, wage compensation and other personal expenses	(4.961.166)	(404.856)	(302.329)	(16.829)
Depreciation costs	(912.825)	(77.981)	(94.488)	(63)
Other income	587.010	34.480	27.646	11
Other expenses	(9.614.769)	(329.660)	(265.813)	(9.398)
PROFIT /LOSS (-) BEFORE TAX	**3.463.384**	**(602.908)**	**69.737**	**636**

8. BUY-BACK OF TREASURY SHARES

Group members did not acquire treasury shares in the business year of 2021 and do not intend to acquire treasury shares in the upcoming period through the offer for acquisition of treasury shares.

At the moment of preparing this report, the activities were underway, as prescribed by the law, on finalizing the process of merging NLB Banka ad Beograd with Komercijalna banka ad Beograd. An extraordinary General Meeting of the Bank's Shareholders was held on December 23rd 2021 where one of the items was the "Decision on accepting the merger of NLB Banka ad Beograd to Komercijalna banka ad Beograd". In accordance with the Company Law, (the Law) the shareholders that do not agree with this decision had a legal right to demand that the Bank buys these shares under the terms and in the manner specified in the provisions of Article 475 of the Law. As the result of this process and on the basis of the right of the dissenting shareholders, it is expected that the Bank will acquire a certain number of treasury shares during 2022.

[24] In period from 01.01 to 12.11.2021
[25] In period from 01.01 to 08.12.2021

9. RISK MANAGEMENT

9.1. Goals and policies for managing financial risks

On a subconsolidated level, the banking Group Komercijalna banka ad Beograd is composed of the Parent Bank Komercijalna banka ad Beograd (hereinafter: the Bank) and the Investment Fund Management Company KomBank Invest. Together with its subsidiaries, the Bank became a member of the banking Group in late 2020 and during 2021 harmonization was carried out with the risk management standards. Bearing in mind the different nature of operation and the scope of operation, the Bank is dominant, while the banking Group standards have been applied to the subsidiary, with respect to the nature and scope of operation. The Bank has established three lines of defense that cover:

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

The Parent Bank has established a comprehensive and reliable risk management system that includes: the risk management framework and the statement of assuming risks, strategies, policies and procedures for risk management, methodologies for managing individual risks, the adequate organization structure, effective and efficient process of managing all the risks the Parent Bank is exposed to or may be exposed to in its operation, adequate internal control system, adequate information system and adequate internal capital adequacy assessment process. Also, the Bank's Recovery Plan is integrated in the risk management system, as a mechanism for early identification of the situation of a serious financial disturbance in which the Parent Bank may undertake measures i.e. apply the defined recovery options with the aim of preventing the entrance into the early intervention stage where the regulator has an active participation or an improvement of the already deteriorated financial condition. The risk management framework is the formalization of the Bank's appetite to material risks, which means defining targets, tolerance and limits for all materially significant risks that can be quantified. With 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 capital with the adherence to the defined framework for the acceptable risk level, managing the necessary level of capital adequacy, development of the activities of the Parent Bank in accordance with the business strategy and the possibilities and development of the market with the aim of creating competitive advantages, diversification of risks the Parent Bank is exposed to, maintaining the share of NPL in total loans on the level below the defined limit, maintaining the concentration risk ratio from exposure to certain types of products below the level specified in the regulations, maintaining the share of loans in dinars with a currency clause in foreign currency and the loans in foreign currency in the total loans of the Parent Bank below the level specified in 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 changes in the regulatory framework, analyzes the effect on risk level and takes measures for timely harmonization of its operation with new regulations.

In the first half of the year the Parent Bank implemented the activities of bringing itself into compliance with the new regulations, particularly in the part of the regulatory framework that regulates the measures for preserving the stability of the financial system, as well as support to the economy for mitigating the consequences of COVID – 19 pandemic by the National Bank of Serbia and the Ministry of Finance of the Republic of Serbia (a break in repayment of liabilities – moratorium, guarantee scheme, etc.) in the environment caused by the COVID – 19 pandemic. Through clearly defined process of introducing new and significantly changed products, services and activities in relation to the processes and systems, the Parent Bank analyzes their effect on future exposure to risks with the aim of optimizing its revenue and expenses for estimated risk, as well as minimizes all potentially possible adverse effects on the Bank's financial result. A detailed overview of the risk management targets and policies on consolidated basis is given in the Notes to Financial Statements.

Policy of protection against exposure to credit risk

With the aim of protection against exposure to credit risk, the Parent Bank applies the techniques for mitigation of the credit risk by obtaining also acceptable security instruments (collaterals), as well as secondary sources of collection of loans. The Parent Bank strives to operate with the clients of good credit rating, assessing it at the moment of submitting the application and through regular monitoring of the borrower, the loan and the collateral, with the aim of undertaking the appropriate, timely activities in the process of collection. The types of security for receivables depends on the assessment of the borrower's credit risk and are determined in each individual case and they are obtained after signing the contract and before disbursing the loan.

The Parent Bank has significantly improved the process and system of managing the social and environmental risk in 2021.

The Parent Bank regulated, with its internal documents, the appraisal of instruments of credit protection and management of those instruments.

The Parent Bank pays particular attention to the marketability and adequate valuation of collaterals, in relation to which, when appraising the value of the collateral, it hires licensed valuers so that the potential risk of unrealistic valuation is reduced to the lowest possible level and the real estate, goods, equipment and other movable items that are pledged must be insured by an insurance company acceptable for the Parent Bank, with the 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 haircut, depending on the type of collateral and the location of the real estate, which are regularly revised and reconsidered.

The Parent Bank pays particular attention to monitoring the collaterals and undertakes activities on securing new valuations, but also on acquiring additional collaterals, primarily from the clients with identified problems in operation, but also from the clients where the coverage of exposure by collaterals is reduced due to the decrease in the value of obtained collaterals.

With the aim of adequate risk management, the Parent Bank performs the activities of credit risk analysis when approving lending and by establishing the system for monitoring, prevention and management of non-performing loans, including also adequate identification of potential NPL clients (Watch List), mitigates credit risk with clients of the aforementioned status, as well as by undertaking the measures and actions aimed at protecting the Parent Bank's interest and preventing the adverse effects on the Parent Bank's financial result and equity. The Watch List was significantly improved in the first half of 2021, in accordance with the process of harmonization with the new owner NLB dd Ljubljana. As part of the Watch List the following categories were defined: WL1 (level 1), WL2 and ICL (level 2).

During 2021 the Parent Bank continued improving the risk management system by taking into account the process of harmonization with the new owner NLB dd Ljubljana, the requirements of the external auditor, as well as the effect of COVID – 19 pandemic. The Bank revised the Risk Management Strategy (decreased the highest acceptable level of NPLs, created new and updated the existing targets, tolerance and limits for the most important risk parameters and amended the procedures and methodologies with the aim of bringing them into compliance with the NLB Group requirements.

In the first half of 2021, in the environment of COVID – 19 pandemic, with a slight improvement of the business environment, the Parent Bank continued to maintain the quality of its loan portfolio by performing regular analyses of the effect of the pandemic on the decrease in business activities and a decrease in the financial potential of the clients from the most affected industries and continued to resolve the problems of the customers who had already been recognized as problematic and it also performed the activities on reducing NPLs. In accordance with the Decision of the National Bank of Serbia, due to the effect of the COVID – 19 pandemic, the most affected clients were allowed moratorium 3 (extension of the loan repayment period with a grace period of 6 months) and, in accordance with the Decision of the Government of the Republic of Serbia, liquidity and refinancing loans were approved from the Guarantee Scheme. Also, in accordance with the Decision of the National Bank of Serbia on the accounting write-off of the bank's balance-sheet assets, the Parent Bank continued to transfer the 100% impaired loans to off-balance-sheet record. The Parent Bank's activities on maintaining the quality of the loan portfolio in the environment caused by COVID – 19 pandemic resulted in the decrease in the NPL level.

In the first half of 2021 also the Decision of the National Bank of Serbia that prescribes a pause in the repayment of the borrower's liabilities (moratorium 3) was applied. A grace period of 6 months was allowed to clients who met the conditions from the NBS Decision (consequence of the effect of COVID – 19) and who requested the moratorium 3 in the environment of potential risks caused by the extraordinary health situation in the country. Also, the Government of the Republic of Serbia passed a decree on extension of the guarantee scheme 1 and the new guarantee scheme 2 with the aim of supporting the financing of corporate clients. The Parent Bank applies IFRS 9 standard and, in accordance with this standard, it calculates the impairment of balance-sheet assets and probable loss from off-balance-sheet items. The Parent Bank applies the "expected loss" concept by factoring in the effect of the expected trend in macroeconomic effects on the future trends in the probability of default on the basis of statistically proven interdependencies. The portfolio is differentiated into three levels that monitor the client's status (level 1 – PL clients without the identified deterioration of credit risks, level 2 – PL clients with identified deterioration of credit risk – measured with a set of defined criteria, level 3 – NPL clients), with defined criteria for the transfer of clients from higher into lower levels. Also, in accordance with the IFRS 9, the Parent Bank calculates the impairment also for the exposure to the Republic of Serbia and the National Bank of Serbia.

The Parent Bank brought itself into compliance also with the amended regulations in the part that relates to the definition of default.

During 2021 the Parent Bank compared all aspects of the credit risk management system and process. The system of triggers for stage 2 and 3, methodology for impairment of financial assets, haircuts for collaterals, inclusion of the forward-looking component in the LGD parameter were improved. A special aspect of credit risk management was the analysis of future trends in risk factors.

9.2. Risk exposure (price, credit, liquidity and cash flow risk) with the strategy for managing risks and assessment of their efficiency

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

1. credit risk and risks related to it,
2. liquidity risk,
3. market risk,
4. interest risk in the Banking book,
5. operational risk,
6. investment risk,
7. exposure risk,
8. country risk, as well as all other risks that might arise in the Bank's regular operations.

Not all of the above listed risks are present in the operation of the subsidiary, bearing in mind the nature and scope of operation.

Credit risk is the possibility of occurrence of adverse effects on the Parent Bank's financial result and equity, due to the borrower's failure to meet their liabilities to the Parent Bank.

Credit risk is conditioned on the borrower's creditworthiness, their duly settlement of liabilities to the Bank, as well as the quality of the security instruments. An acceptable level of exposure to the credit risk is in line with the defined Risk Management Framework and the Risk Management Strategy and depends on the structure of the Parent Bank's portfolio, on the basis of which it is enabled to limit the adverse effects on the Parent Bank's financial result and equity, while minimizing the capital requirements for credit risk, counterparty risk, risk of a reduction in the value of purchased receivables, risk of settlement/delivery in relation to free deliveries and with the aim of maintaining capital adequacy at an acceptable level. The Parent Bank manages credit risk on client level, the level of a group of related entities and on the level of the whole loan portfolio. The Parent Bank approves loans to clients (legal entities and private individuals) for which it assesses that they are creditworthy, by performing an analysis i.e. quantitative and/or qualitative measurement and assessment of credit risk and the borrower's financial situation. The process of measuring credit risk is based on measuring the level of difference of an individual loan on the basis of the internal rating system, as well as on the basis of implementation of NBS regulations, which requires classification of each lending on the basis of the specified criteria.

By monitoring and controlling the portfolio in its entirety and per individual segments, the Parent Bank makes a comparison with the previous periods, identifies the trends and the causes of changes in the level of credit risk. Also, it monitors the asset quality indicators (trends in NPL, the level of coverage of NPL by impairments, etc.), as well as the exposure according to regulatory and internally defined limits. The decision on managing the concentration risk in relation to certain types of products introduced also the monitoring and reporting on the degree of loan indebtedness of private individuals (DTI ratio). These regulations are somewhat relaxed with the amendments and supplements passed by the National Bank of Serbia with the aim of bringing them into compliance with the current business circumstances, caused by the COVID – 19 pandemic. The process of monitoring the quality of the loan allows the Bank to estimate the potential losses, as the result of the risk it is exposed to and to undertake appropriate corrective measures. On the other hand, the Parent Bank does not invest in high-risk lending such as investment into potentially profitable projects that carry a high risk, in investment funds of high-risk portfolio, etc.

Liquidity risk is the possibility of occurrence of adverse effects on the Bank's financial result and equity due to the Parent Bank's inability to meet its due liabilities as the result of withdrawal of the existing funding sources and the inability to obtain new funding sources – liquidity risk of the funding sources, as well as hindered conversion of assets into liquid funds, due to disturbances in the market – market liquidity risk.

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

The liquidity risk is expressed also in the Parent Bank's inability to transform certain parts of assets into liquid assets within a short period. The Parent Bank analyzes the risks of funding sources and the liquidity market risk. The problem of liquidity from the aspect of the funding sources relates to the structure of liabilities i.e. the obligations and is expressed as potentially significant share of unstable sources, short-term sources or their concentration. The liquidity risk of the funding sources is, actually, the risk that the Parent Bank will not be able to meet its obligations due to the withdrawal of the unstable funding sources i.e. the inability to obtain new funding sources. On the other side, the liquidity risk is expressed also as the deficit of the liquidity reserves and hindered or impossible acquisition of liquid assets at acceptable market prices. With the aim of adequately managing the liquidity risk, during 2021 the Parent Bank established the process of internal liquidity adequacy assessment process (ILAAP) which is implemented at least once a year. The Bank has established the internal limit system and the risk appetite framework, in accordance with the Group's standards for the structural liquidity indicators, as well as with the nature of the Bank's operation.

During 2021 the Parent Bank was compliant with the regulatory and internally defined limits, as well as the Risk Management Framework, and the liquidity risk ranged within the controlled limits. The Parent Bank actively undertakes preventive measures with the aim of minimizing the exposure to liquidity risk.

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

The Parent Bank is exposed to ***FX risk*** which manifests as a possibility of occurrence of the adverse effects on the financial result and equity due to the volatility of exchange rates, the share, change in the value of the local currency against foreign currencies or the change in the value of gold and other precious metals. With the aim of minimizing the exposure to FX risk, the Bank diversifies the currency structure of its portfolio and liabilities, harmonizes the open positions for certain currencies, while observing the principles of maturity transformation of assets. During 2021, the Bank was compliant with the regulatory FX risk ratio which is expressed as 20% of the regulatory capital, as well as with the significantly more conservative internally set limits i.e. the defined Risk Management Framework.

Interest risk is the risk of occurrence of adverse effects on the Bank's financial result and equity in relation to the items from the banking book due to adverse changes in the interest rates. The Parent Bank establishes, in a comprehensive and timely manner, the causes of the current and assesses the factors of the future exposure to interest risk. The exposure to this type of risk depends on the ratio of interest sensitive assets and liabilities. Managing interest risk aims at maintaining the acceptable level of exposure to interest risk from the aspect of effect on the financial result and the economic value of equity, buy pursuing adequate policy of maturity match between the period of reestablishment of interest rates and adjustment of the funding sources according to the level of interest rate and maturity. During 2021 the Parent Bank improved the interest risk management process.

During 2021 the Parent Bank was compliant with the regulatory and internally set limits, as well as with the Risk Management Framework.

Operational risk is the risk of loss that arises due to the lack or errors in the functioning of internal processes, systems and people or due to external events. Operational risk includes legal risk, but not also strategic and reputational risk. However, due to its importance, the reputational risk is taken into account when managing operational risk. Operational risk is defined as an event that has occurred as the result of inadequate or unsuccessful internal processes, employee actions and systems or systemic and other external events, internal and external fraud, employment practice and occupational safety, client's receivables, distribution of products, fines and penalties due to breaches, damage caused to material property, disturbances in the operation and systemic errors and process management.

Measurement or the assessment of the Parent Bank's operational risk is carried out through quantitative and/or qualitative assessment of the identified operational risk. The Parent Bank measures the exposure to operational risk through the record of events, monitoring the key risk indicators and determining the operational risk profiles.

The key risk indicators are an early warning for signaling changes in the Bank's risk profile. They relate to certain operational risk and show higher exposure in the occurrence of the operational risk event. Their purpose is to provide assistance in reducing the losses and operational risks through proactive analysis of the risk factors.

The Bank's operational risk profile is the Bank's exposure to operational risk and it serves as the basis for passing additional decisions that would improve the existing operational risk profile and draw it to the final profile. The existing profile of identified operational risks is the result of identification and assessment of operational risks within certain processes by the organizational units, which is performed at least once a year. The existing operational risk profile includes operational risks that the operational risk custodians (persons responsible for monitoring operational risks, as well as other employees) see within their organizational units or outside of them. During 2021, apart from the other assessments of operational risks in the processes, the Parent Bank also assessed its exposure to operational risks in the environment of the Covid – 19 pandemic, as well as in the integration process and identified operational risks. For the identified operational risks appropriate risk mitigation measures were defined.

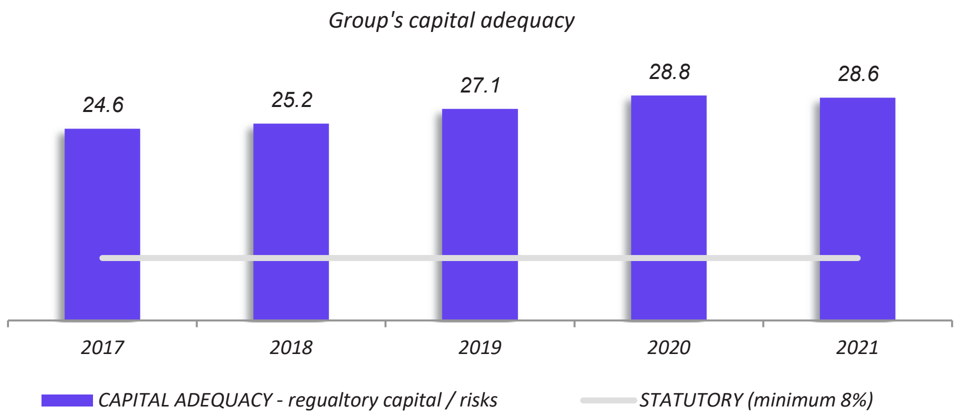
The Parent Bank takes measures aimed at mitigating operational risks and reacting proactively to potential operational risk events through permanent monitoring of all activities, monitoring key risk indicators that are an early warning for signaling changes in the Bank's risk profile, application of adequate and reliable information system, whose implementation improves the business practice and optimizes the Bank's business processes. Due to the increase in the systemic risk related to the litigation against the Bank, in relation to collected fees for loans disbursement and the insurance premium for NMIC, during 2021 the Bank made timely provisioning for the legal claims against the Bank, and in accordance with the assessment of the future expected loss on those grounds, due to which it recorded and increase in the limits defined internally in the Risk Management Framework.

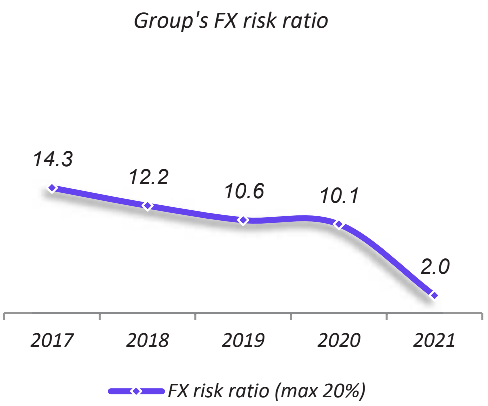
Investment risk of the Parent Bank is the risk of investing in other legal entities and in fixed assets and investment property. In accordance with the regulations of the National Bank of Serbia, the level of permanent investment is monitored and the Bank's bodies and committees are informed about that. In this manner it is ensured that the Parent Bank's investment in one entity that is not in the financial sector does not exceed 10% of the Parent Bank's equity and that the Bank's investment into entities that are not in the financial sector and in fixed assets and investment property of the Bank does not exceed 60% of the Bank's equity.

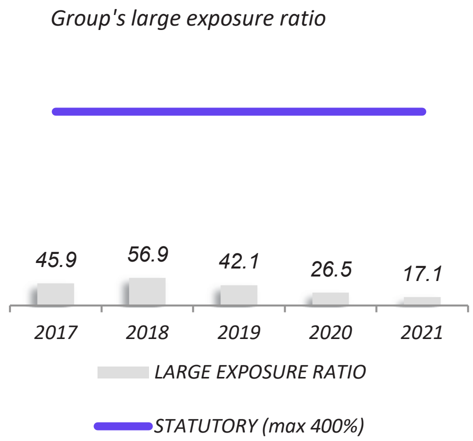
Large exposure of the Bank to a single entity or a group of related entities, including the persons related to the Parent Bank is the exposure that amounts to at least 10% of the Bank's equity. During 2021 the Parent Bank was compliant with the regulatory and internally defined exposure limits.

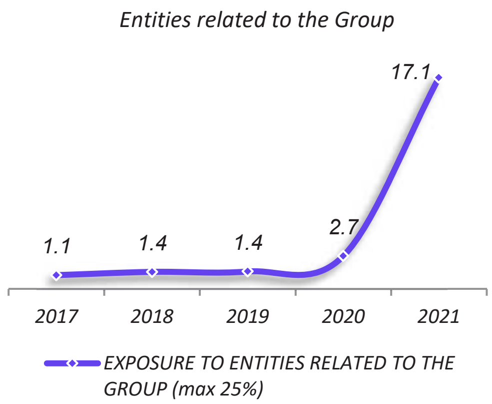
Country risk is the risk relating to the country of origin of the entity the Parent Bank is exposed to or the risk of the possibility of occurrence of adverse effects on the Parent Bank's financial result and equity due to the Bank's inability to collect receivables from the borrower for reasons that are the consequence of political, economic or social circumstances in the borrower's country of origin. The Bank's exposure to the country risk is at an acceptable level.

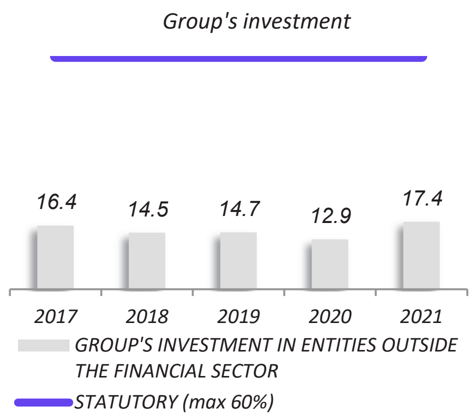
A detailed presentation and the explanation of the risks the Group is exposed to in its operation are given in item 4. Risk Management and the Notes to Financial Statements.


Group's capital adequacy
24.6
25.2
27.1
28.8
28.6
2017
2018
2019
2020
2021
CAPITAL ADEQUACY - regualtory capital / risks
STATUTORY (minimum 8%)


Group's FX risk ratio
14.3
12.2
10.6
10.1
2.0
2017
2018
2019
2020
2021
FX risk ratio (max 20%)


Group's large exposure ratio
45.9
56.9
42.1
26.5
17.1
2017
2018
2019
2020
2021
LARGE EXPOSURE RATIO
STATUTORY (max 400%)


Entities related to the Group
1.1
1.4
1.4
2.7
17.1
2017
2018
2019
2020
2021
EXPOSURE TO ENTITIES RELATED TO THE GROUP (max 25%)


Group's investment
16.4
14.5
14.7
12.9
17.4
2017
2018
2019
2020
2021
GROUP'S INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR
STATUTORY (max 60%)

10. NONFINANCIAL INFORMATION ABOUT THE GROUP

10.1. Group's business model

The Group Komercijalna banka ad Beograd operates as a commercial bank of universal type. In its operation the Bank is equally focused on work with retail customers, legal entities and registered farms. The Group's activities include lending, deposit and guarantee operations and the payment transactions operation in Serbia and abroad, in accordance with eth Law on Banks, as well as managing investment funds.

The Bank operates independently, on market principles, with the implementation of the principle of liquidity, profitability and security, with the observance of the law, other regulations and general principles of the banking operation in realizing its targets in a socially responsible manner, in accordance with the basic values and business ethics.

The Bank's business model is defined as gathering, holding unemployed funds from legal entities and private individuals on defined terms (principle and interest) and investment of the gathered funds to legal entities and private individuals in the form of loans on different, defined terms (principal and interest), investment in securities and other registered activities.

The key business activity of the company KomBank INVEST is organizing and managing UCITS fund. Exceptionally, the Company may manage other institutions of collective investment in accordance with the special law and in regard to which it is subject to prudential supervision. The Company's assets are the property and rights owned by the Company, as well as other rights of the Company. The Company is liable for all its obligations with its total assets.

The Company manages the operation and activities of the following funds:

1. KOMBANK INFOND

The primary investment goal of the management company is to allow the members of the UCITS fund, with responsible and professional management, to achieve high rates of return on the funds invested for a longer term, while assuming moderate risk.
The key investment goal (benchmark) of the UCITS fund is to achieve the rate of return that continuously follows the trends in the leading world indices.
Bearing in mind also the choice to invest in financial instruments that are volatile, on a daily basis, to the change in the market conditions, as well as the composition of the UCITS fund's portfolio, moderate volatility of the investment unit is possible.

2. KOMBANK MONEY FUND

The investment goal of UCITS fund is to allow to its members, trough responsible and professional management, stable return with as high profitability of investment as possible and with a low level of risk and while maintaining the liquidity of the assets at the highest possible level.
The key investment goal (benchmark) of UCITS fund is to achieve the rate of return that continuously follows the trends in the daily BEONIA (Belgrade over-night interest rate) interest rate as the benchmark indicator for the UCITS fund.

3. KOMBANK FX FUND

The investment goal of the UCITS fund is to allow to its members, through responsible and professional management, a stable return with as high profitability of investment as possible with a low level of risk and while maintaining the liquidity of the assets at the highest possible level.
The key investment goal of the UCITS fund (benchmark) is the achievement of returns that continuously follow the trends in the EURIBOR interest rate, as well as other benchmark rates on the FX market.

10.2. Investment in environmental protection

The Group observes the international standards and values when creating financial products and services, develops and implements the activities in the area of environmental protection and the protection of human and labor rights.
Komercijalna banka Beograd, the Parent Bank particularly cares for the protection of the natural environment and is committed to responsible operation that involves striving towards minimizing waste, optimizing the consumption of resources with the aim of reducing the environmental effect to the lowest possible level, as well as the appropriate management of potential environmental risks when lending. The measures that are taken in order to reduce the adverse effect on the environment are:

Printing/recycling paper and the environmental effect
Reducing printing is a constant and long-term process in Komercijalna banka that was initiated with the introduction of DMS as early as in 2012. During the past several years the Bank has introduced electronic post office where the total incoming post is scanned and sent, in digital form, to the organizational units in the Bank. Lately, the documents have been signed with a certified electronic signature and the Bank constantly works on digitizing its business processes, which results in constant reduction of paper consumption (in the period 2019-2020 by 20%, and in the period 2020-2021 by additional 19%). One of the targets of the project of relocating the Bank's headquarters is the introduction of paperless manner of operation. After selecting the archives whose storage deadline has expired, it is separated to be destroyed and recycled in accordance with the strictest standards and procedures.

Waste recycling
Waste management means sorting waste into commercial waste and electric and electronic equipment waste. Disposal of electric and electronic waste is done after the completion of the annual inventory of fixed assets by handing this waste over to a company certified for managing this type of waste which, upon completed transport, submits to the Bank a verified certificate that the waste has been received.

Use of light
With its daily activities, Komercijalna banka contributes to savings in electricity by keeping lights off in premises that are not used and that light is turned on only when needed. The Bank has also started installing LED bulbs in its premises. With the relocation of het Bank's headquarters, the Bank plans to implement the technological solutions that will make the headquarters a smart building with the implemented BMS (building management system) and solar panels that will additionally contribute to lower energy consumption.

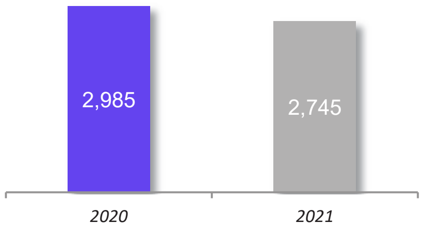
Reduction in CO2 emission
Having recognized the importance and the adverse trend of increasing CO2 emission on a global level, Komercijalna banka has taken a whole set of measures aimed at limiting its own effect on CO2 emission. Starting from 2022 Komercijalna banka has ensured that all consumed electricity comes exclusively from renewable energy sources. In this manner, the indirect incentive for the greenhouse gases that are the result of coal burning has been avoided. Also, activities have been initiated on calculating the total emission of these gases due to the regular activities of Komercijalna banka and the results of these activities will be used in order to establish the strategies focused on further decrease in the emission of all harmful gases.

Environmental protection system
Komercijalna banka works actively on establishing the Environmental and Social Management System (ESMS) which will ensure daily analysis, limitation and management of all potential social or environmental risks, which might arise from lending to certain industries or projects. The Environmental and Social Management System will function in accordance with the principles and rules adopted by the European Bank for Reconstruction and Development (EBRD), Multilateral Investment Guarantee Agency (MIGA) and the legal frame of the republic of Serbia, which will ensure the highest standards when managing social and environmental risks.

10.3. Social and HR issues of the Group

As of December 31st 2021 the Group had a total of 2,745 employees, 240 fewer than in the previous year 2020. The decrease was the result of the changes during 2021 i.e. the sale of a member of the Group Komercijalna banka ad Banja Luka and the merger of the member of the group Komercijalna banka ad Podgorica to NLB banka ad Podgorica. The data of 2,745 employees includes the employees of the Parent Bank, the company KomBank INVEST and NLB Banka ad Podgorica.

Number of employees in the Group



Group members independently define and implement the HR policy in accordance with the individual business policies, strategies and business plans.
HR management mission in Komercijalna banka is the development and maintenance of a high level of expertise and motivation of the employees, with the aim of achieving the Bank's business plans. With continuous optimization of the number and structure of employees, over the past years, the Bank's efficiency has also grown, measured as asset per employee.

During 2021 the responsible organizational units in the Group's members organized and realized the training sessions for its employees in accordance with the current, local health situation.
During 2021 the HR Division of the Parent Bank participated in organizing employee training where 99% of them attended online training. With the outbreak of the COVID 0 19 virus in the Republic of Serbia, with the aim of increasing health security, the employees were mostly sent to training sessions that did not require presence in person. Out of the total number of trainees, women accounted for 72.6% while men accounted for 27.4% of the attendees.

Since 2008 the Parent Bank performs the annual evaluation of the work of employees on the basis of the set annual targets, monitoring the achievement of those targets, but also on the basis of the skills the employees have exhibited when achieving the targets. The annual employee evaluation forms the grounds for bonus, career planning, budget planning and the plan of employee training. In 2021 the process of setting targets, monitoring the results and rewarding employees was harmonized with the standards on the level of NLB Group.

Employees in the Parent Bank have the freedom to unionize. Since 2010 an Independent Union of Komercijalna banka ad Beograd has been acting in the Bank. The union is independent in its work and provides adequate support to all the employees, not only its members, in order for the work conditions of all the employees to be at an adequate level.

Employees of the Parent Bank are enabled to report cases of mobbing at the workplace. During 2021, there were no reported cases of workplace mobbing. At the Parent Bank, women and men are equal in terms of the amount of salary for a job that requires the same qualifications and the same complexity, i.e., they receive the same salary for the same type of work they perform.

During 2021, as well as in 2020, during the Covid-19 virus pandemic, employees were enabled, in accordance with their possibilities, to opt for work in the Bank's premises or for work from home. Employees are allowed to decide for themselves whether to be vaccinated or not.

In order to protect the health of workers, since the outbreak of the pandemic caused by the COVID-19 virus, the Parent Bank has taken a number of measures, of which the following stand out:

- employees are provided with work from home in cases where this work can be organized;
- disinfectants and protective masks were provided for employees who continued to work in the Bank's official premises;
- in accordance with the provisions of the Labor Law and the Collective Agreement of the Bank, temporary interruption of work is provided at the request of employees, with reported chronic diseases. Employees during the interruption of work are entitled to salary compensation in the amount of 80% of the salary that the employee would have earned if he/she worked.
- in accordance with the recommendations from the conclusions of the Government of the Republic of Serbia, employees are granted payment of salary compensation in the amount of 100% of the basis for salary compensation in case of temporary absence due to confirmed infectious disease COVID-19. All employees of the Bank have the right to do so, regardless of the manner in which they became infected with COVID-19, provided that employees are vaccinated before temporary absence due to confirmed infectious disease COVID-19, as well as employees who cannot be vaccinated for health reasons;
- support was provided to workers who expressed interest in vaccination;
- Workers suffering from COVID used the right to sick leave.

10.4. *Respect for human rights*

The Group respects all human rights guaranteed by local regulations where the members of the Group operate. In its operations, the Group does not use or abuse children or minors.
Employed women in the Group are allowed to use the right to maternity leave in accordance with local regulations and the Collective Agreement.

The Parent Bank respects all human rights guaranteed by the Constitution of the Republic of Serbia. In its operations, the Bank does not use or abuse children or minors. Employed women in the Bank are allowed to use the right to maternity leave, childcare leave and special childcare leave, in accordance with the Labor Law and the Collective Agreement.

Komercijalna banka respects the protection of personal data prescribed by the Law on Personal Data Protection. The Bank also adopted an internal act, the Rulebook on Personal Data Protection (Pr-03-02-BK).

The Bank respects the privacy of employees in accordance with the regulations on personal data protection.
The Bank is making efforts to provide employees with safety at work, in which direction a number of acts and procedures have been adopted.

In accordance with the provisions of the Collective Agreement, the Bank collectively insures all employees in the event of serious illness and surgical interventions and in the event of death due to accident and disability (24/7/365).

The employee is obliged to comply with the regulations on safety and protection of life and health at work, and non-compliance with these regulations and failure to inform the Bank of any potential danger that could affect the safety and health at work of employees or other employees is a violation of work discipline pursuant to the provisions of the Collective Agreement of Komercijalna banka ad Beograd.

The Bank has an Occupational Safety and Health Committee, which has competencies regulated by law and the Collective Agreement of Komercijalna banka ad Beograd.

10.5. *Fight against corruption and bribery issues*

The document "Policy for the Management of Conflicts of Interest and Prevention of Corruption" of Komercijalna Banka AD Beograd - NLB Group (hereinafter: the Policy) regulating the issue of the fight against corruption and bribery is in force at the Parent Bank. [26]

In applying this Policy, the Parent Bank adheres to:
- Applicable legal regulations;
- Code of Corporate Governance of the Serbian Chamber of Commerce,
- Business rules of the Belgrade Stock Exchange a.d. and
- The best practice of NLB Group.

Pursuant to the above mentioned Policy:
- conflict of interest means a conflict between the private interests of an individual and persons related to him (including members of their immediate family) and the interests of NLB d.d. or a member of the NLB Group, which an individual is obliged to protect, and which could have negative consequences on conducting business activities, making business decisions, performing work tasks and fulfilling obligations
- corruption means any abuse of position for private purposes. This includes obtaining financial and non-financial benefits for oneself or others. Examples of corruption are blackmail, bribery, fraud, nepotism, payment of benefits.
- Bribery means seeking or accepting, for oneself or for someone else, an illegal reward, gift or any other benefit or promise or offer of such benefit that would, in order to acquire or retain a transaction or other illegal benefit, disregard the interests of NLB Group members or other private individuals or harmed them. Bribery also means promising, offering or giving an illicit reward, gift or any other benefit to a person or someone else in order to give oneself or someone else an unjustified advantage in obtaining or retaining a transaction or other illegal benefit, also in exchange for obtaining or retaining a transaction or other benefits.

Prohibited actions related to corruption
In the NLB Group, any form of corruption is strictly prohibited. The NLB Group is prohibited from using any resources of any member of the NLB Group for any illegal purposes or purposes that are not in accordance with the anti-corruption rules set out in this Policy. Employees are obliged to reject any corrupt behavior and immediately report it to the organizational unit responsible for compliance.

In order to combat corruption, Komercijalna banka ad Beograd has developed procedures in order to combat:
- Illegal acceptance and unauthorized giving of gifts (bribery) - It is strictly forbidden to illegally give or accept gifts to anyone /from anyone, whether a business partner, supplier or public servant, to get a new job, keep an existing job or give preference to someone's interests in the wrong way;
- payment of benefits - this activity is prohibited so that the payment of benefits may not be made or received;
- nepotism - prohibited activity;
- lobbying and political contributions - members of the NLB Group will not pay any political contributions - neither direct nor indirect;
- sponsorships and donations - approval of donations and sponsorships in a non-transparent manner for profit organizations must be avoided; associations or organizations or persons associated with the NLB Group, or without respecting the rules established for the approval of donations and sponsorships;
- standards for suppliers and / or external service providers - suppliers and external service providers must be informed in advance of compliance and integrity requirements, obtain links to access the published NLB Group Code of Conduct (for public use) while contracts with the

26 Incitement is also considered corruption - if someone promises or even rewards another person in exchange for an action that has signs of corruption. In that case, both the person who was given the incentive and the person who essentially performs such an act are involved in the corrupt act.

Bank must contain standards in the field of compliance and prevention of corruption, as well as appropriate legal remedies (termination of contracts due to non-compliance with NLB Group standards);

- use of intermediaries - intermediaries, agents, advisors, real estate agents, representatives and other persons acting in the name and on behalf of the Bank or other members of the NLB Group, must be notified in advance of compliance and integrity requirements, obtain links to access the published NLB Group Code of Conduct (for public use) while contracts with the Bank must contain standards in the field of compliance and prevention of corruption, as well as appropriate remedies (termination of contracts due to non-compliance with NLB Group standards;
- Employment or commissioning of services from former civil servants, state employees or their relatives - civil servants and officials, members of their immediate family and other persons closely related to them (e.g. friends, other close acquaintances) enjoy the same treatment as other (potential) employees or business partners, based on their experience, skills and competencies, and can never be given priority because of these connections in recruitment procedures or service ordering or goods purchasing processes;
- contacts with senior government officials - members of the governing bodies of NLB Group members who have contacts with the government or state representatives or representatives of diplomatic missions or international organizations must, in addition to respecting the rules of accepting and giving gifts, and in order to protect the integrity and reputation of NLB Group must ensure to achieve the basic goal of this Policy in these contacts, i.e., to ensure business transparency, and
- contacts with other persons - employees of the NLB Group who have been approached by a representative or agent of a supplier, external service provider, client or third party in an attempt to improperly influence the business decisions of an NLB Group member in an inappropriate or illegal manner, are obliged to immediately refer that to the organizational unit responsible for the compliance of the bank's operations.

Other illegal or prohibited actions in the performance of business activities of the Bank and the Group are described in the mentioned document, and/or the Policy.

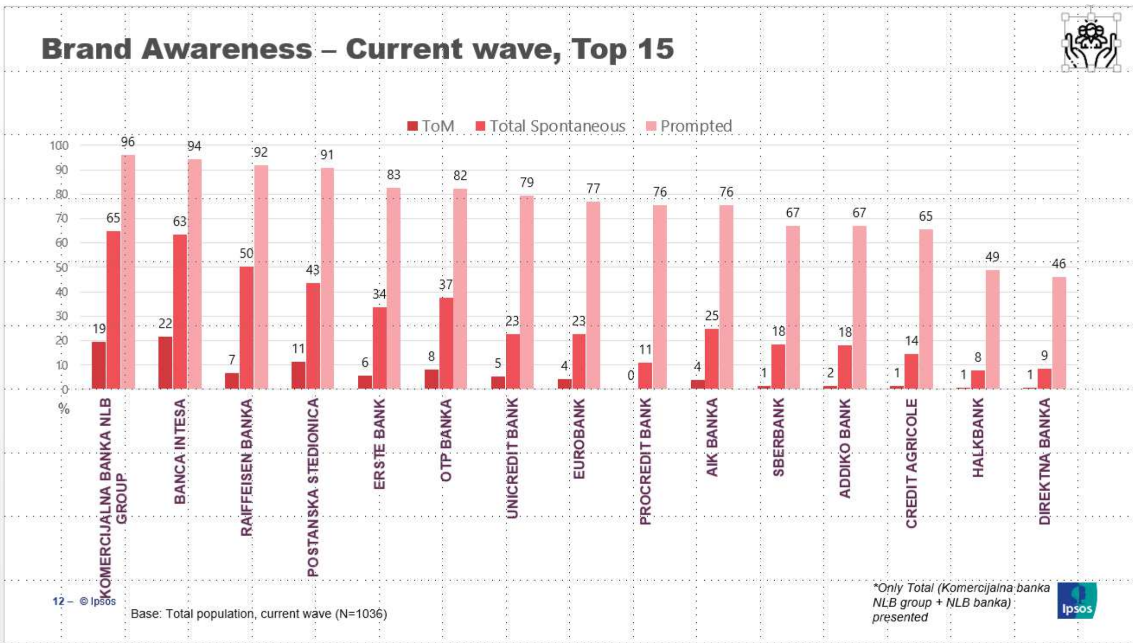
10.6. Research and Development Activities

During 2021 Komercijalna banka, the Parent Bank monitored, in detail and up-to-date the trends in the financial market and successfully adjusted to the conditions and changes in the market, in order to maintain its enviable position, which is attested by the surveys that have been conducted.

The Bank's market position as a brand, the position of its products and services have been surveyed also during 2021, through the banking Omnibus, conducted by a market research agency "IPSOS", specialized for this type of surveys. The surveys show that, over a long period, the Bank has been holding one of the leading positions in the eyes of the public, measured by the criteria of brand recognition, quality and satisfaction with products and services the clients use. All the survey results are posted on the Bank's internal portal and other targeted groups are also informed about them for the purpose of additionally strengthening the brand of Komercijalna banka.

Report of the last banking Omnibus (from November 2021) shows that, according to the pollsters' opinion, Komercijalna banka ranks at the top in terms of brand recognition among the 15 leading banks in Serbia.

Bank brand recognition in Serbia (banking Omnibus, November 2021)



Results of the surveys and analyses contribute to the improvement of the efficiency of the process of making business decisions, particularly important in the segment of developing new and improving and modifying the existing products and services.

As part of the continuous process of monitoring market signals and the needs of the existing users and potential customers, the responsible divisions of the Group members have offered the users, over the past period, new and/or improved products and services of the Bank.

GROUP'S CORPORATE SOCIAL RESPONSIBILITY

KOMERCIJALNA BANKA A.D. BEOGRAD

Activities from the area of Corporate Social Responsibility made a particular contribution to the preservation and increase in the value of corporate image, which the Bank carefully selected and supported and where it actively cooperated with its partners. A successful campaign of securing equipment for general and maternity hospitals "Together for Babies" continued.
It was exactly the charity campaign of March 4th for the maternity hospital Narodni Front that was the first public appearance of the CE Vlastimir Vuković. On that occasion, Mr. Vuković gave this reputable and well-known institution a present, on behalf of the bank, in the form of an ultrasound machine.

Regular activities in the area of corporate social responsibility were hindered due to the situation in the country caused by the corona virus pandemic. This year again the Bank rose up to this challenge with the procedures that enabled operation in this situation, as well as by directing the funds to extraordinary procurement and donations of medical supplies and equipment for hospitals.
All the activities of Komercijalna banka ad Beograd in this area are accompanied by appropriate PR support, without which modern market operations are unimaginable and which proved to be necessary in extraordinary circumstance we found ourselves in 2021. The Bank has communicated with its stakeholders in a quality, clear and targeted manner in order to timely inform them of all the changes that accompanied the operation, as well as of the safety procedures it had implemented. In this manner mutual understanding was achieved and confidence in the Bank was maintained, which contributes to the improvement of the acquired image and reputation.

11. PLAN FOR THE GROUP'S FUTURE DEVELOPMENT

Business strategies and plans for the upcoming period are defined and adopted on the level of individual Group members [27].

In accordance with the policy of NLB Group, in the period July – October 2021, Komercijalna banka a.d. Beograd and NLB banka a.d. Beograd prepared for the bank that is created with the integration of the two banks, the Budget for 2022 and financial projections for the period 2023-2026.

A starting assumption for the preparation of the plan is to take into consideration the synergy effects, particularly from April 2022, which are expected in the integration process. A successful completion of the integration process is the first major challenge in the upcoming period.

The bank's key goals it wishes to achieve in the upcoming period are: [28]

- significant improvement of all key performance indicators, so that these indicators are above the expected ones on the sector level, with the planned profit in accordance with the expectations of NLB Group;
- change in the structure of assets, with high growth rates of lending activity in all segments and, consequently, with a significant growth in market shares;
- continued growth, although at lower rates, of the deposit potential, with the aim of maintaining market share, with decrease in liquid assets, including investment into securities, which will be used, to a significant degree, for the growth of the loan portfolio. These changes will affect the LTD ratio which is expected to rise significantly and reach the average level for the banking sector;
- maximum use of employed capital, dividend payout in all years, while maintaining the capital adequacy ratio at the prescribed level;
- improvement of products and services in accordance with market trends, including continuous growth of market share in digital sales channels;
- reorganization and rebranding of the branch network in order to respond to customer needs and desires;
- optimizing the number of employees in accordance with the best business practice.

The expected average annual growth during the planned period is 5% so the projected total assets at the end of 2026 will amount to over RSD 746 billion. In the initial years of the planned period, it is expected that the bank will gradually use excess liquidity to finance the growth of the loan portfolio so the growth rate of total assets will be lower than the average growth rate for the whole period.

The Bank plans a strong growth of the loan portfolio in all segments, in the period from 2021 and 2026, with double-digit average annual growth. The projected growth is significantly faster than the expected market growth so, by 2026, the Bank will improve its market position in all important segments. The growth of loans will be partly financed from excess liquidity and partly from the expected growth of deposits from the non-banking sector.

On the liabilities side, an average annual growth rate of deposits from the non-banking sector follows the growth rate of total assets. Due to excess liquidity and low LTD ratio, the Bank does not expect to have the funding needs on the interbank market, while it will use, as needed, the funds in the form of credit lines from the parent bank NLB d.d. Ljubljana.

Despite the pressure on interest rates, the planned strong growth of the loan portfolio is expected to result in a significant growth of interest income in the planned period and the Bank plans to actively manage also the tariff of fees with the aim of achieving the appropriate fee income. In that part the focus will be on payment service related services as well as on documentary business.

At the General Meeting of Shareholders of Komercijalna banka ad Beograd, the Parent Bank, held on 26.10.2021, the Decision was passed on granting approval for the sale of **Komercijalna banka a.d. Banja**

27Within this item of the reprot, the parts take from individual strategies and buisness plans of Group members are shown.

28Strategy and Business Plan of Komercijalmna banka ad Beograd for the period 2022 - 2026

Luka. The process of selling **Komercijalna banka a.d. Banja Luka,** and taking it out of the Group Komercijalna banka ad Beograd, was completed in December 2021.

The business targets of the UCITS Fund Management Company **KOMBANK INVEST a.d. Beograd** for the figure planned period are:

- increase in balance-sheet assets;
- keeping the company's liabilities at the same level;
- increase in revenue from managing funds, stable financial revenue with the control of the level of operating expenses, which will result in significant increase in the annual net profit;
- respectable increase in business results and an increase in the volume of operation by using the benefits offered by the law – direct credits in EUR, free trading in investment units and a first-ranking pledge of investment units.

12. *SIGNIFICANT EVENTS FROM THE END OF THE BUSINESS YEAR*

From December 31st 2021 until the end of February 2022 two extraordinary General Meetings of the Bank's Shareholders were scheduled.
At the General |Meeting of the Bank's Shareholders scheduled and held on February 2nd 2022 the following decisions were adopted:
- Decision on amendment and supplement to the Memorandum of Association,
- Decision on adopting the Articles of Association of NLB Komercijalna banka AD Beograd,
-Decision on supplementing the Decision on accepting the merger of NLB Banka AD Beograd with Komercijalna banka AD Beograd.

A new extraordinary General Meeting of the Banks' Shareholders is scheduled and held on February 25th 2022 on which the following decision was adopted:
- Decision on supplementing the Decision on acquisition of the Banks' treasury shares from the dissenting shareholders.

Other significant events after the end of the business year in KB Group and the Group members are disclosed in the Notes to Consolidated Financial Statements – Events after the Balance-Sheet Date.

Signed on behalf of the Group Komercijalna banka a. d. Beograd

Dejan Janjatović	Vlastimir Vuković
Deputy Chief Executive Officer	Chief Executive Officer

KOMERCIJALNA BANKA AD BEOGRAD

NLB GROUP

2021
ANNUAL REPORT FOR THE GROUP KOMERCIJALNA BANKA AD BEOGRAD

March, 2022

CONTENTS

The consolidated financial statements of the Banking Group are presented in thousands of dinars. The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

The functional currency, EUR from the financial statements of Komercijalna banka ad Podgorica and BAM from the financial statements of Komercijalna banka ad Banja Luka, was converted into the reporting currency of the Parent Bank - dinar (RSD) on the basis of officially published exchange rates in the Republic of Serbia.

The Consolidated Income Statement and the Consolidated Cash Flow Statement for the period have been reclassified using the average official exchange rate in the Republic of Serbia for 2021 of 117,5725 for one EUR and 60,1141 for one BAM, and other consolidated financial statements (balance sheet, statement of changes in equity and statement of other comprehensive income) by applying the closing rate on the balance sheet date of 117,5815 for one EUR or 60,1194 for one BAM.

Business changes made in foreign currency are translated into dinars at the middle exchange rate determined on the interbank foreign exchange market, which is valid on the day of the business change.

Assets and liabilities denominated in foreign currencies at the date of the consolidated balance sheet are translated into dinars at the middle exchange rate determined on the interbank foreign exchange market valid on that day.

The consolidated income statement of the Group includes the income statement of:

- Komercijalna banka a.d. Beograd and Kombank INVEST a.d. Beograd for the period from 01.01 to 31.12.2021,
- Komercijalna banka a.d. Podgorica in the period from 01.01 to 12.11.2021 and
- Komercijalna banka a.d. Banja Luka in the period from 01.01 to 08.12.2021.

Annual Report on Operations for the year 2021 presents a credible presentation of the development and business results of the Komercijalna banka ad Beograd Group achieved in 2021.

1. GROUP'S KEY PERFORMANCE INDICATORS

DESCRIPTION	2021	2020	INDICES 2021/2020	2019	2018	2017
INCOME STATEMENT * *(in thousand RSD)*						
Profit/loss before tax	2.583.160	3.884.127	66,5	7.726.328	8.381.166	7.316.383
Profit/loss after tax	2.777.593	2.607.184	106,5	8.399.865	8.380.334	8.267.996
Net interest income	13.165.036	13.288.023	99,1	13.770.518	13.946.644	13.517.238
Net fee income	6.077.604	5.266.522	115,4	5.727.124	5.540.447	5.413.601
BALANCE SHEET *(in thousand RSD)*						
Consolidated BS Assets	489.468.222	500.868.939	97,7	475.755.894	441.586.959	400.108.316
Off-balance sheet operations	532.084.315	534.330.733	99,6	503.834.838	496.783.044	507.341.556
Loans and receivables from banks and OFO	29.130.701	18.865.483	154,4	26.990.004	21.037.537	30.233.555
Loans and receivables from customers	209.044.942	219.433.627	95,3	208.234.158	191.448.642	174.242.139
Deposits and other liabilities to banks, OFO[1] and central bank	2.134.916	8.096.190	26,4	8.318.606	8.228.284	6.137.776
Deposits and other liabilities to customers	403.286.418	406.192.067	99,3	370.987.710	350.668.156	317.577.748
Capital	75.651.707	78.135.806	96,8	79.371.576	71.522.051	67.100.116
Capital adequacy	28,6%	28,8%	99,1	27,1%	25,2%	24,6%
Number of employees **	2.745	2.985	92,0	3.056	3.076	3.106
PROFITABILITY PARAMETERS						
ROA	0,5%	0,8%	65,6	1,7%	2,0%	1,8%
ROE (on total capital)	3,4%	4,9%	68,1	10,2%	12,1%	11,6%
Net interest margin on total assets	2,7%	2,7%	-	3,0%	3,3%	3,3%
Cost / income ratio	69,42%	69,17%	100,4	63,67%	60,41%	64,0%
Operating expenses	13.358.013	12.834.821	104,1	12.414.562	11.772.192	12.119.512
Net income/expenses from impairment of fin. assets that are not measured at fair value through P&L	(475.358)	(1.264.236)	37,6	1.587.676	51.681	36.342
Assets per employee (in thousand RSD)	178.313	167.795	106,3	155.679	143.559	128.818
Assets per employee (in thousand EUR)	1.516	1.427	106,3	1.324	1.212	1.087

During the preparation of the consolidated balance sheet of Komercijalna banka ad Beograd for 2021, the balance sheet for 2020 was corrected, due to which there is a difference in the data in relation to the already published Annual Report on the Group's operations for 2020. In accordance with the changes in the balance sheet for 2020, a subsequent adjustment of the performance indicators for 2020 was made to the extent possible.
**Income Statement - KB Beograd and Kombank INVEST in period from 01.01 to 31.12.2021, KB Podgorica in period from 01.01 to 12.11.2021 and KB Banja Luka in period from 01.01 to 08.12.2021.*
***Note: number of employees of KB Group for the year 2021 includes Komercijalna banka ad Beograd as the Parent bank, KomBank INVEST ad Beograd as a subsidiary and NLB Banka ad Podgorica as associated company.*

[1] OFO – Other financial organizations

2. MACROECONOMIC BUSINESS CONDITIONS

Macroeconomic indicators	SERBIA
Gross domestic product	EUR 38,5 billion[2]
GDP trend	7,5%[3]
Consumer price index (XII 2021 / XII 2020)	+7,9%
Assets of the banking sector	+7,3%[4]
Share of banking sector's assets in GDP	109,1%[5]
Industrial production	+1,4%[6]
NPL of the banking sector	3,5%[7]
Unemployment rate	10,5%[8]

According to the final data of the Statistical Office of the Republic of Serbia, a decline in GDP for 2020 of 0,9% was recorded. According to the preliminary estimate of the Republic Statistical Office, GDP growth for 2021 is 7.5%.[9].

Inflationary pressures, which were mild until the first half of 2021, have intensified since the second half of the year and have affected the growth of year-on-year inflation, which at the end of December 2021 amounted to 7,9% y-o-y.[10] In accordance with the NBS Memorandum, the target inflation rate for the period from January 2021 to December 2024 will be within the target of 3.0% ± 1.5pp.[11]

The Labour Force Survey of the Republic Statistical Office shows that the unemployment rate for the third quarter of 2021 is 10.5%.[12].

The total value of foreign trade in the period January-November 2021 amounted to EUR 45,3 billion[13]

The net inflow of foreign direct investment (FDI) for the twelve months of 2021 amounted to EUR 3,9 billion.[14]

Central government public debt at the end of November 2021 amounted to EUR 29,9 billion, representing 56,4% of GDP[15].

Serbia's risk premium, measured by the EMBI index (bond index of emerging countries) for debt in EUR, has increased since the end of the second quarter of 2021 by 30 b.p. only to reach 174 b.p. at the end of October. Other emerging European countries had similar developments regarding debt risk premiums in EUR due to the changed willingness of investors to invest in emerging countries. During 2021, the total turnover on the Belgrade Stock Exchange amounted to RSD 41,2 billion or EUR 350,7 million, which is a decrease compared to 2020 (-15.4%). 18.743 transactions (3,6%) were realized and the market capitalization of RSD 533,3 billion was realized. The Belex line stock exchange index ended 2021 at 1.711,57 (9,29%), while the Belex15 index reached the value of 820,78 (9,64%).[16.]

2 NBS, Key macroeconomic indicators, December 6, 2021 (three quarters of 2021)
3 NBS, Macroeconomic trends in Serbia, January 2022
4 Growth of assets of Serbian banking sector 30.09.2021./2020
5 Data apply to GDP and sector's assets as of 30.9.2021.
6 MFIN, Current macroeconomic trends, November 2021 (September 2021 y-o-y.)
7 NBS, Macroeconomic trends in Serbia, December 2021, NPL for October 2021
8 RZS, Labour Force Survey , Q3 2021.
9 NBS, Macroeconomic trends in Serbia, January 2022
10 RZS, Announcement for pubic, December 2021.
11NBS,Memorandum NBS on inflation targets until 2024, adopted and the NBS EB session on, 9.12.2021
12 RZS, Labour Force Survey, 3Q 2021.
13 MFIN, Current macroeconomic trends, January 2022.
14 NBS, Macroeconomic trends in Serbia, January 2022.
15 MFIN, Table-pubic debt of the Repubic of Serbia, January 2022.
16 Belgrade Stock Exchange, annual statistics, 2021.

3. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE GROUP

The Banking Group consists of two banks (Parent and one associated bank) and one investment fund Management Company.
Komercijalna banka ad Beograd, the Parent bank, within the registered activities performs the following operations:

- Deposit operations (receiving and placing the deposits),
- Credit operations (granting and taking the loans),
- Foreign exchange, foreign exchange-foreign currency exchange operations and exchange transactions;
- Payment transactions;
- Issuance of payment cards;
- Securities operations (issuance of securities, custody bank operations and other);
- Broker-dealer transactions;
- Issuance of guarantees, guarantee of a bill and other forms of sureties (guarantee operation);
- Purchase, sale and collection of receivables (factoring, forfeiting and other);
- Insurance agency operations, as per prior consent of the National Bank of Serbia;
- activities for which it is authorized by law.

The Parent Bank has been authorized to perform international payment transactions since 2003, to perform the activities of a broker-dealer company since 2005, to perform the activities of a custodian bank since 2006, and to perform insurance agency activities since 2011.

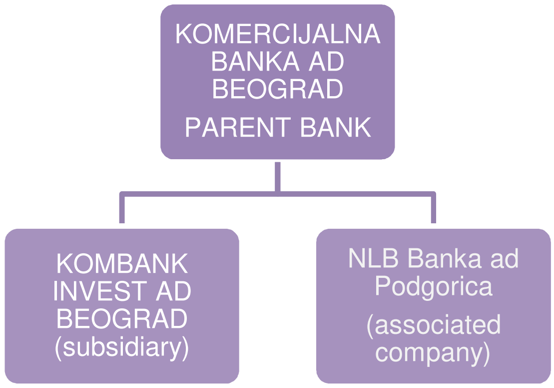
Komercijalna banka ad Banja Luka was a subsidiary and formed the Komercijalna banka ad Beograd Group until December 2021. At the General Meeting of Shareholders of Komercijalna banka ad Beograd, the parent bank, held on October 26, 2021 the Decision was passed on giving consent for the sale of Komercijalna banka ad Banja Luka. On Banja Luka Stock Exchange on December 9, 2021 a "block" transaction of purchase and sale of shares of Komercijalna banka ad Banja Luka was performed by Banka Poštanska štedionica ad Beograd.

Komercijalna banka ad Podgorica was a subsidiary and formed the Group of Komercijalna banka ad Beograd until November 2021. Komercijalna banka ad Podgorica was excluded from trading on the Podgorica Stock Exchange on November 9, 2021. On 12.11.2021 it was deleted from the records of the Central Register of Business Entities of Montenegro. On 14.11.2021 the operational procedure of the merger of Komercijalna banka ad Podgorica to NLB Banka ad Podgorica was successfully completed. After the completion of the merger procedure of Komercijalna banka ad Podgorica to NLB Banka ad Podgorica Komercijalna banka ad Beograd has a stake in the share capital of NLB Banka ad Podgorica of 23,97%. NLB Banka ad Podgorica, as of 31.12.2021, has the status of an associate of the Komercijalna banka ad Beograd Group.

KOMBANK INVEST AD Beograd is registered for performing the following activities:

- organizing and managing the open-end investment funds,
- establishing and managing closed-end investment funds,
- managing private investment funds,
- other business activities pursuant to the law regulating the capital market, and/or the tasks of a portfolio manager and investment advisor.

3.1. Organizational Structure of the Group



3.2. Basic Information about the Group Members

	KOMERCIJALNA BANKA AD BEOGRAD	KOMBANKA INVEST AD BEOGRAD	NLB Banka AD PODGORICA
ADDRESS	Svetog Save 14	Kralja Petra 19	Bulevar Stanka Dragojevića 46
COUNTRY	Republic of Serbia	Serbia	Montenegro
TELEPHONE	00381-11-30-80-100	00381-11-330-8160	+382 19888

Komercijalna banka AD Beograd, the Parent bank, was incorporated on December 1, 1970, and transformed into a joint stock company on May 6, 1992. The bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered with the Business Registers Agency on April 14, 2006. The bank received a banking license from the National Bank of Yugoslavia on July 3, 1991.

The business year 2020 was marked by activities at related to completing the Bank's privatization process. In February 2020, an Agreement was signed between the Ministry of Finance of the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana, Slovenia, on the purchase and sale of 83,23% of ordinary shares of Komercijalna banka a.d. Beograd. After that, in March 2020, the "closing process" began, the process of taking over (acquisition) of the Bank. Nova Ljubljanska banka d.d. Ljubljana, Slovenia on 30.12.2020 completed the process of taking over Komercijalna banka a.d. Beograd. On that day, the Agreement on the transfer of shares of Komercijalna banka a.d. Beograd was signed between the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana, Slovenia.

Shareholders of the Parent bank with more than 5% of capital *(as of 31.12.2021)*

KOMERCIJALNA BANKA AD BEOGRAD
88,28% owned by NLB d.d. Ljubljana

In addition to sub-branch network the Parent bank operates in Belgrade on three locations

Address/Headquarters	Svetog Save 14	Svetogorska 42-44	Makedonska 29
TELEPHONE	381-11-30-80-100	381-11-32-40-911	381-11-33-39-001
FAX	381-11-344-23-72	381-11-32-35-121	381-11-33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E - mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

Business network of the Parent bank

	BUSINESS CENTER	SEAT
1.	BC Beograd 1	Trg Politike 1, Beograd
2.	BC Beograd 2	Trg Politike 1, Beograd
3.	BC Kragujevac	Moše Pijade 2, Požarevac
4.	BC Niš	Episkopska 32, Niš
5.	BC Novi Sad	Bulevar oslobođenja 88, Novi Sad
6.	BC Užice	Petra Ćelovića 4, Užice
	BRANCH	**SEAT**
1.	Kosovska Mitrovica	Čika Jovina 11, Kosovska Mitrovica

	DIVISIONS	SEAT
1.	Corporate Banking Division-large clients	Svetogorska 42-44, Beograd
2.	Corporate Banking Division - SME - Vojvodina	Bulevar oslobođenja 88, Novi Sad
3.	Corporate Banking Division - SME - Beograd	Svetogorska 42-44, Beograd
4.	Corporate Banking Division - SME – Central Serbia	Svetogorska 42-44, Beograd

After 2017 and the first major reorganization of the business network, after analysing the effects of the implemented changes on business, in early 2018 the Bank implemented additional changes in the business network.

In March 2018 a new change of organization was implemented in Corporate business function when instead of Business corporate centres the Divisions for SMEs in Belgrade, Central Serbia and Vojvodina were formally formed. The essential change included the functional merging of sales and credit analysis within the same organizational form (Corporate Division for SMEs, Belgrade, Central Serbia and Vojvodina).

In 2019 and 2020, there were no changes in the organization within the Corporate business function.

Operations in Retail segment, during 2021, were performed by the Parent bank through the network of 190 sub-branches grouped in six Business Centres and Kosovska Mitrovica Branch. Business operations with legal entities were performed through three Divisions for SME (Vojvodina, Belgrade and Central Serbia) and Corporate Banking Division – Large clients.

KOMERCIJALNA BANKA AD BANJA LUKA

100,0% owned by Banka Poštanska Štedionica a.d., Beograd[17]

KOMBANK INVEST AD BEOGRAD

100,0% owned by KB Beograd

UCITS Fund Management Company KOMBANK INVEST a.d. Beograd is a company entered in the Register of Business Entities of the Business Registers Agency on February 5, 2008. The Company operates as a bicameral non-public joint stock company in accordance with the Law on Open-End Investment Funds with Public Offering, the Rulebook on Open-End Investment Funds with Public Offering and the Rulebook on Conditions for Operating Open-End Investment Fund Management Companies with public offer.

The Company manages three investment funds, as follows:

1. KOMBANK IN FOND, type of fund - balanced, fund currencies RSD and EUR,
2. KOMBANK MONETARY FUND, type of fund - preservation of property value, fund currency RSD,
3. KOMBANK FOREIGN EXCHANGE FUND, type of fund - preservation of property value, fund EUR

At the end of 2021, the Company had six employees.

NLB BANKA AD PODGORICA

23,97% owned by KB Beograd

NLB Banka ad Podgorica is a bank that performs registered business activities in the territory of Montenegro and is registered under the laws of Montenegro. Headquarters of NLB banka a.d. Podgorica is at 46, Bulevar Stanka Dragojevića Street in Podgorica. The Bank performs its activities through a network of branches, sub-branches and counters, which after the merger of Komercijalna banka ad Podgorica, consists of 19 branches, 2 branches and one counter, in: Podgorica (7), Ulcinj, Bar, Budva (2), Cetinje, Bijelo Polje, Rožaje, Herceg Novi, Kotor (2), Nikšić, Tivat, Pljevlja, Berane and Tuzi.
As at 31 December 2021, the Bank had 367 employees (31 December 2020: 312 employees).

[17] 100% owned by KB Beograd until December 2021when it was sold to Banka Poštanska štedionica ad Beograd

4. CORPORATE GOVERNANCE IN THE GROUP

4.1. Rules of Corporate Governance

Corporate Governance Code of the Parent Bank

Corporate governance rules are based on relevant legislation (primarily the Law on Banks and the Company Law).

The competences and powers of all bodies of Komercijalna banka AD Beograd (General Meeting of Shareholders, Board of Directors, Executive Board, Audit Committee, Assets and Liabilities Management Committee, Credit Committee), are based on relevant legal regulations and are defined by internal acts (Memorandum of Association, Bank's Articles of Association, rules of procedure of the Bank's bodies and other internal acts).

Komercijalna banka AD Beograd, Parent Bank, in its operations, in accordance with the Decision of the Executive Board of the Bank no. 8373 dated 9 April 2013 year, applies the Code of Corporate Governance of the Serbian Chamber of Commerce ("Official Gazette of the RS", No. 99/2012), which was adopted by the Assembly of the Serbian Chamber of Commerce. The Corporate Governance Code establishes the principles of corporate practice according to which the holders of the Bank's corporate governance, act and adhere in their operations. The aim of the Code is to introduce good business practices in the field of corporate governance, equal influence of all stakeholders, existing and potential shareholders, employees, clients, bodies of the Bank, the state, etc. The ultimate goal is to ensure long-term and sustainable development of the Bank. The text of the Corporate Governance Code is published on the website of Komercijalna banka AD Beograd (https://en.kombank.com/corporate-governance).

Management bodies of the Parent bank

The management bodies of the Parent Bank are explained in the Annual Business Report of Komercijalna Banka a.d. Beograd for 2021.

Corporate Governance Code of the UCITS Fund Management Company KOMBANK INVEST

Kombank Invest a.d. Beograd is organized in the form of a one-member joint stock company that is not public with a bicameral management system. In order to ensure impartiality, transparency and accountability in corporate behaviour, the Company applies the Rules of Conduct and Professional Ethics that are harmonized with the parent company, the Policy for Management of Conflicts of Interest and Personal Transactions, etc.

Management Board of the UCITS Fund Management Company KOMBANK INVEST

The Management Board of the Company was formed in accordance with the Law on Open-End Investment Funds with a public offering and the Articles of Association of the Company. The management of the Company is organized as bicameral.

Management bodies are: General Meeting of Shareholders, Supervisory Board and Director.

The function of the General Meeting of Shareholders on behalf of Komercijalna Banka as the sole shareholder is performed by the Executive Board of Komercijalna Banka AD Beograd. The manner of work and decision-making of the Executive Board of Komercijalna banka AD Beograd, which performs the role of the Company's General Meeting of Shareholders, is determined by the Rules of Procedure of the Executive Board of Komercijalna banka AD Beograd.

Supervisory Board has three members that are appointed by the Company's General Meeting of Shareholders.

Members of the Supervisory Board of the Company as of December 31, 2021 are as follows:

NAME AND SURNAME	TITLE	DATE OF APPOINTMENT	TERM OF OFFICE
Vlastimir Vuković	*Chairperson*	*12.02.2021*	*4 years from the date of appointment*
Blaž Bračić	*Member*	*12.02.2021*	*4 years from the date of appointment*
Tanja Ahlin	*Member*	*12.02.2021*	*4 years from the date of appointment*

The competencies of the Supervisory Board of the Company are defined by the Law on Open-End Investment Funds with Public Offering and the Articles of Association of the Company.

The quorum for work and decision-making of the Supervisory Board of the Company is the majority of the total number of members of the Supervisory Board of the Company. The Chairperson of the Supervisory Board is also considered a member of the Supervisory Board.

The Company has one director, who is the executive director. The Director is appointed by the Company's Supervisory Board. Director's term of office is 4 years and upon its expiry he/she can be re-elected.

Director of the Company as of December 31, 2021 is:

NAME AND SURNAME	TITLE	DATE OF APPOINTMENT	TERM OF OFFICE
Vladimir Garić	*Director*	*12.02.2021*	*4 years from the date of appointment*

The competencies and powers of all member bodies of the Group are based on the relevant legal regulations and defined in internal acts. The rules of corporate governance are implemented through internal acts and there are no deviations in their application.

4.2. Description of basic elements of the internal control and risk reduction system regarding the financial reporting procedure

Parent Bank

Basic elements of the internal control and risk reduction system regarding the financial reporting procedure have been established through:

- work of committees/boards established in accordance with the Law on Banks (Board of Directors, Executive Board and Audit Committee)
- established internal controls systems (risk management function, compliance function and internal audit function) and
- appropriate strategies, policies and other acts adopted at the Bank's level in order to provide adequate financial reporting.

A detailed description of the system of internal controls and risk reduction in connection with the financial reporting procedure is explained in the Annual Business Report of Komercijalna banka a.d. Beograd for 2021.

Internal control and internal audit of the UCITS Fund Management Company KOMBANK INVEST

The Company establishes a structure of internal controls consisting of:

- Compliance function and
- Internal audit function.

4.3. Information on takeover bids

During 2021, the Parent Bank and company KomBank INVEST did not publish bids for the takeover of shares of other joint stock companies.

In accordance with the above, during 2021, Komercijalna banka a.d. Beograd Group through the process of taking over other legal entities did not:

- Acquire any direct or indirect share in capital of another legal entity;
- Become the owner of any securities that wold allow it special control over other legal entities;
- Become the owner of securities with limited voting rights over another legal entity;
- Participate in appointing and releasing from duty the members of the management board of another legal entity and
- Participate in determining the authority of the management of another legal entity.

4.4. Diversity policy description

The members of the Group carry out this part of fulfilling their legal obligations in accordance with local regulations.

In the Republic of Serbia, the diversity policy is, at the level of legislation, regulated primarily by:
- Law on Gender Equality (December 2009), or
- Gender Equality Act (May 2021).

By entry into force of the Gender Equality Act the Law on Gender Equality ceased to be valid, with a note that certain provisions of the Gender Equality Act enter into force only on January, 01, 2024.
The Law on Gender Equality regulates the creation of equal opportunities for exercising rights and obligations, taking special measures to prevent and eliminate discrimination based on gender, and the procedure of legal protection of persons exposed to discrimination.

The Law on Gender Equality belongs to the group of anti-discrimination laws which:
- elaborates in more detail the right to equality of women and men guaranteed by the Constitution of the Republic of Serbia, and
- introduce special measures to ensure the implementation of equal opportunities policy.

In accordance with Article 13 of the Law on Gender Equality, the Bank undertakes the following on an annual basis, and no later than January 31 of each year:
- for the current year, draws up a Plan of Measures to eliminate or alleviate unequal representation of genders and
- for the previous year, adopts the Annual Report on implementation of the plan of measures to eliminate or alleviate unequal representation of genders.

The content of the Plan of Measures and the content of the Annual Report on the Implementation of the Plan of Measures shall be defined by a special act of the Minister responsible for gender equality issues.

In accordance with legal regulations, the Bank is obliged to submit the Plan of Measures and the Annual Report on the Implementation of the Plan of Measures to the Ministry in charge of gender equality issues no later than March 31 of the current year.

In accordance with the laws and bylaws, the Bank, when compiling the Plan of Measures and the Annual Report on the Implementation of the Plan of Measures, incorporates all employees, including members of the Executive Board of the Bank.

The reports submitted to the competent authority shall disclose data (without providing personal data on employees) in the form of the number and structure of employees, according to various criteria:
- total number of employees;
- total number of managerial positions;;
- total number of jobs;
- number of identical jobs, with different net earnings;
- total number of employees sent for professional development or training for the reporting period;
- total number of hired employees;
- total number of laid off employees;
- number of women on maternity leave;
- number of women returned to work after maternity leave;
- number of jobs, according to the general act of the Bank, for which there is a justified need to make gender differences in accordance with the law governing work.

The data from the Plan of Measures and the Annual Report on the Implementation of Measures are used to achieve the following objectives:

- created equal opportunities for exercising rights and obligations from the employment relationship and on the basis of work, in accordance with the law governing work;
- Encourage and improve the equal representation of women and men in the Bank in employment process, as well as in the work process.

In the coming period, the actions of economic entities in the Republic of Serbia will be harmonized with the provisions of the Law on Gender Equality (activities related to the implementation of the Law on Gender Equality will start after the adoption of bylaws by the competent ministry , the same being the precondition for undertaking activities).

During 2021, the Bank did not have the adopted Diversity Policy document, but the Bank's management adheres to the principles of gender diversity of management members and employees, diversity of educational profiles of employees, diversity of different religions, and diversity of age structure of employees. In the coming period, after the implementation and completion of the merger process, the intention is to adopt a joint document Diversity Policy at the level of the Bank, which exists at the level of the NLB Group.

The Bank's management in selecting members of management bodies and senior management is guided by the principle of gender equality, diversity of educational profiles, range of knowledge, skills and experience, age.

In accordance with the Labour Law and the Collective Agreement of Komercijalna banka ad Beograd, all forms of discrimination, harassment, sexual harassment and abuse of employees at work and in connection with work are prohibited.

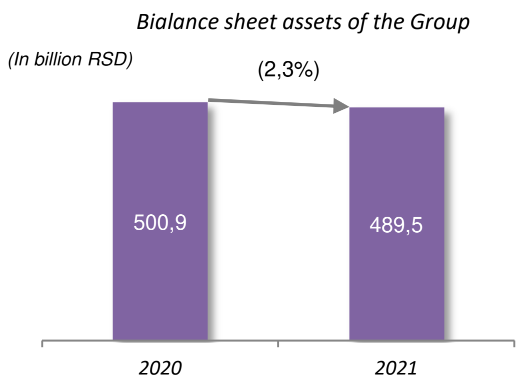
The Bank and the Bank's Trade Union cooperate in the prevention of any kind of conduct referred to in the preceding paragraph.
At the end of 2021, the Bank's Board of Directors consists of 7 men and 2 women. The Executive Board of the Bank consists of 1 woman and 3 men.

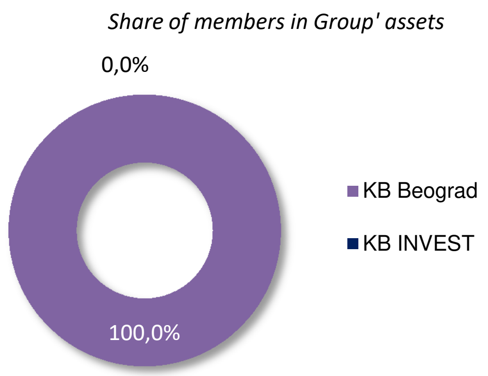
5. FINANCIAL POSITION AND THE RESULTS OF GROUP'S BUSINESS OPERATIONS

5.1. Balance sheet assets of the Group and of the Group members

DESCRIPTION	2021	2020	2019	2018	2017
(in thousand RSD)					
BALANCE SHEET ASSETS OF THE GROUP *	489.468.222	500.295.263	475.755.894	441.586.959	400.108.316
Komercijalna banka a.d. Beograd	489.291.030	455.152.974	428.857.730	398.447.676	366.074.702
Komercijalna banka a.d. Banja Luka[18]	-	27.879.636	29.256.166	27.624.178	20.075.186
Komercijalna banka a.d. Podgorica[19]	-	17.088.819	17.472.505	15.353.955	13.801.705
KomBank INVEST a.d. Beograd	177.192	173.834	169.493	161.150	156.723

*Note: For preparation of the consolidated balance sheet for 2021, full consolidation method was applied for Komercijalna banka ad Beograd, Parent bank and KomBank INVEST ad Beograd, the subsidiary. Due to comparability with data from previous years, the table does not show the assets of NLB Banka ad Podgorica, which is consolidated by equity method as an associate.





Balance sheet assets of the Group at the end of 2021 have been reduced in comparison to the end of 2020 by RSD 11.400,7 million (2,3%) where the balance sheet assets for 2020 were adjusted at the end of 2021. The share of the Parent Bank in the consolidated assets is still dominant.

18 Since December 2021, after sale of package of shares to Banka Poštanska štedionica ad Beograd, through Banjalučka Stock Exchange, Komercijalna banka ad Banja Luka is no longer part of Komercijalna banka Group
19 Since November 2021, following the process of merging with NLB Banka ad Podgorica, Komercijalna banka ad Podgorica does not exist as an independent legal entity

5.2. Consolidated Balance Sheet as of 31.12.2021

Consolidated assets of the Group as of 31.12.2021

NO.	DESCRIPTION	31.12.2021.	31.12.2020.	INDICES	SHARE 2021.
1	2	3	4	5=(3:4)*100	6
	ASSETS (in thousand RSD)				
1.	Cash and funds with central bank	82.055.481	86.892.070	94,4	16,8
2.	Pledged financial assets	-	-	-	-
3.	Receivables from derivatives	-	-	-	-
4.	Securities	149.744.019	158.438.656	94,5	30,6
5.	Loans and receivables from banks and other financial organizations	29.130.701	18.865.483	154,4	6,0
6.	Loans and receivables from customers	209.044.942	219.433.627	95,3	42,7
7.	Changes in fair value of items subject to hedging	-	-	-	-
8.	Receivables from derivatives intended for hedging	-	-	-	-
9.	Investments in associates and joint ventures	1.479.000	-	-	0,3
10.	Investments in subsidiaries	-	-	-	-
11.	Intangible assets	582.101	578.413	100,6	0,1
12.	Property, plant and equipment	8.755.740	6.743.199	129,8	1,8
13.	Investment property	2.610.531	2.718.683	96,0	0,5
14.	Current tax assets	18.985	19.661	96,6	-
15.	Deferred tax assets	512.015	2.484	-	0,1
16.	Non-current assets intended for sale and assets of discontinued operations	101.614	370.663	27,4	-
17.	Other assets	5.433.093	6.806.000	79,8	1,1
	TOTAL ASSETS (from 1 to 17)	**489.468.222**	**500.868.939**	97,7	100,0

Of the individual balance sheet items, as at December 31, 2021, loans and receivables from customers (42,7%) had the largest share in balance sheet assets of the Group. Item loans and receivables from customers has a downward trend at the end of 2021, it is reduced by 4,7% relative to the end of 2020.

The position securities represents a significant position of consolidated assets, with a share of 30,6%, and it has been reduced during 2021 by 5,5% compared to the end of 2020.

Cash and funds with central bank accounted for 16,8% in total consolidated assets and they have been reduced in comparison to the end of previous year by 5,6%.

Balance sheet position loans and receivables from banks and other financial organizations accounts for 6,0% of consolidated balance sheet assets and records an increase of 54,4% relative to the end of 2020.

Consolidated liabilities of the Group as of 31.12.2021

NO	DESCRIPTION	31.12.2021.	31.12.2020.	INDICES	SHARE 2021
1	2	3	4	5=(3:4)*100	6
	LIABILITIES *(in thousand RSD)*				
1.	Liabilities from derivatives	-	-	-	-
2.	Deposits and other financial liabilities to banks, other financial organizations and CB	2.134.916	8.096.190	26,4	0,4
3.	Deposits and other financial liabilities to other customers	403.286.418	406.192.067	99,3	82,4
4.	Liabilities from derivatives intended for hedging	-	-	-	-
5.	Changes in fair value of items that are subject to hedging	-	-	-	-
6.	Liabilities from securities	-	-	-	-
7.	Subordinated liabilities	-	-	-	-
8.	Provisions	4.251.729	2.696.346	157,7	0,9
9.	Liabilities from assets intended for sale and assets of discontinued operations	-	-	-	-
10.	Current tax liabilities	-	2.079	-	-
11.	Deferred tax liabilities	-	176.573	-	-
12.	Other liabilities	4.143.452	5.569.878	74,4	0,8
	TOTAL LIABILITIES (from 1 to 12)	**413.816.515**	**422.733.133**	97,9	84,5
	CAPITAL				
13.	Share capital	40.034.550	40.034.550	100,0	8,2
14.	Profit	9.579.290	5.385.674	177,9	2,0
15.	Loss	-	1.261.380	-	-
16.	Reserves	26.037.867	33.976.892	76,6	5,3
17.	Non-controlling interests	-	70	-	-
	TOTAL CAPITAL (from 13 to 17)	**75.651.707**	**78.135.806**	96,8	15,5
	TOTAL LIABILITIES	**489.468.222**	**500.868.939**	97,7	100,0

On the side of consolidated liabilities, the dominant position at the end of 2021 was that of deposits and other financial liabilities to other customers, with share of 82,4%. The position deposits and other financial liabilities to other customers has been reduced in comparison to 2020 by 0,7%.

In consolidated liabilities the total capital accounted for 15,5%, while its share as of 31.12.2020 was 15,6%. Relative to 2020 the capital of the Group, as at 31.12.2021, is reduced as expected (reduction 3,2%) primarily due to decrease of the position reserves in capital. Reserves in capital have been reduced by 23,4% at the end of 2021 in comparison to the year 2020.

Changes in key balance sheet positions are expected given the changes that occurred in composition of KB Group during 2021, and/or the sale of Komercijalna banka ad Banja Luka and merging of Komercijalna banka ad Podgorica to NLB Banka ad Podgorica.

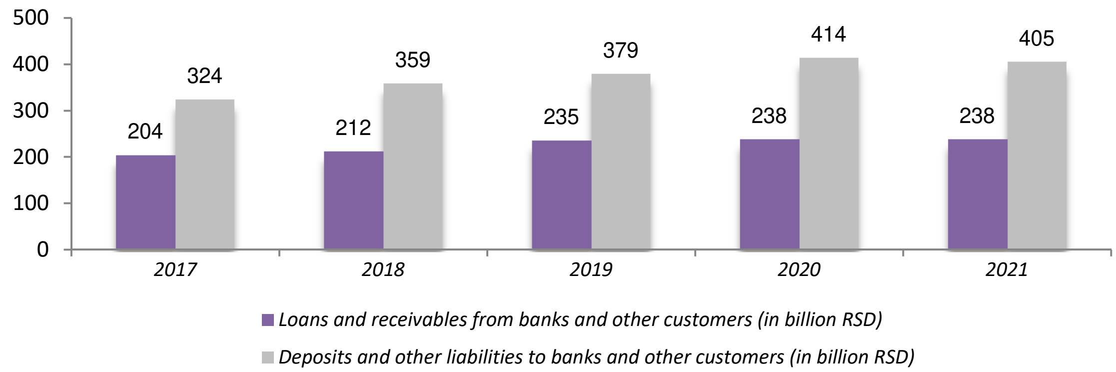
5.3. *Consolidated Balance Sheet as of 31.12.2021 – Group members*

	DESCRIPTION	KB Beograd	KomBank INVEST	TOTAL GROUP
1	2	3	4	5=(3+4)
	ASSETS /position (in thousand RSD)			
	Cash and funds with CB	82.055.481	0	82.055.481
	Securities	149.588.755	155.264	149.744.019
	Loans and receivables from banks and other financial organizations	29.114.381	16.320	29.130.701
	Loans and receivables from customers	209.044.942	0	209.044.942
	Investments in associates and joint ventures	1.479.000	0	1.479.000
	Intangible assets	582.101	0	582.101
	Property, plant and equipment	8.755.659	81	8.755.740
	Investment property	2.610.531	0	2.610.531
	Current tax assets	18.911	74	18.985
	Deferred tax assets	509.242	2.773	512.015
	Non-current assets intended for sale and assets of discontinued operations	101.614	0	101.614
	Other assets	5.430.413	2.680	5.433.093
	TOTAL ASSETS	**489.291.030**	**177.192**	**489.468.222**
	LIABILITIES /position			
	Deposits and other financial liabilities to banks and other financial organizations	2.134.916	0	2.134.916
	Deposits and other financial liabilities to other customers	403.286.418	0	403.286.418
	Provisions	4.233.853	17.876	4.251.729
	Current tax liabilities	0	0	0
	Deferred tax liabilities	0	0	0
	Other liabilities	4.142.442	1.010	4.143.452
	TOTAL LIABILITIES	**413.797.629**	**18.886**	**413.816.515**
	Total capital	**75.633.659**	**18.048**	**75.651.707**
	Total lack of capital	0	0	0
	TOTAL LIABILITIES	**489.431.288**	**36.934**	**489.468.222**

5.4. Loans and Deposits of Customers and Banks of the Group and the Group Members

DESCRIPTION	2021	2020	2019	2018	2017
(in thousand RSD)					
LOANS AND RECEIVABLES FROM CUSTOMERS AND BANKS	238.175.643	238.299.110	235.224.162	212.486.179	204.475.694
Growth percentage	(0,1%)	1,3%	10,7%	3,9%	(2,5%)
Komercijalna banka a.d. Beograd	238.159.323	206.597.421	205.497.840	185.917.193	182.944.400
Komercijalna banka a.d. Banja Luka[20]	-	18.873.327	18.734.989	16.811.744	13.647.511
Komercijalna banka a.d. Podgorica[21]	-	12.811.983	10.974.943	9.740.866	7.883.783
KomBank INVEST a.d. Beograd	16.320	16.379	16.390	16.376	-
DEPOSITS AND LIABILITIES TO CUSTOMERS AND BANKS	405.421.334	414.288.257	379.306.316	358.896.440	323.715.524
Growth percentage	(2,1%)	9,2%	5,7%	10,9%	(8,8%)
Komercijalna banka a.d. Beograd	405.421.334	376.433.132	339.234.701	321.271.358	295.755.134
Komercijalna banka a.d. Banja Luka	-	23.109.297	24.601.533	23.547.061	15.803.267
Komercijalna banka a.d. Podgorica	-	14.745.828	15.470.082	14.078.021	12.157.123
KomBank INVEST a.d. Beograd	-	-	-	-	-

Movement of loans and deposits of the Group from 2017 to 2021



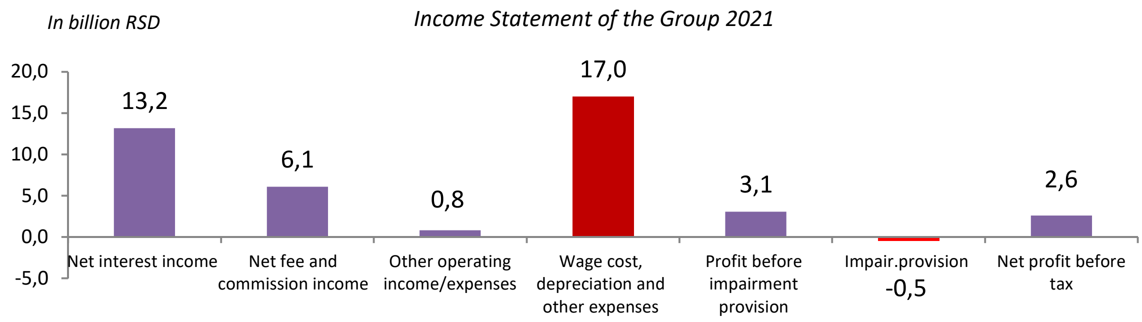
Share of the Parent Bank in loans and receivables from banks and other customers of the whole Group, at the end of 2021 equalled 100,0% while at the end of 2020 it was 86,7%. Share of the Parent Bank is also dominant in deposits and other financial liabilities to banks and other customers of the Group with 100,0%, which to be expected given the above mentioned changes in the composition of KB Group that occurred in 2021 (sale of Komercijalna banka ad Banja Luka and merging of Komercijalna banka ad Podgorica to NLB Banka ad Podgorica).

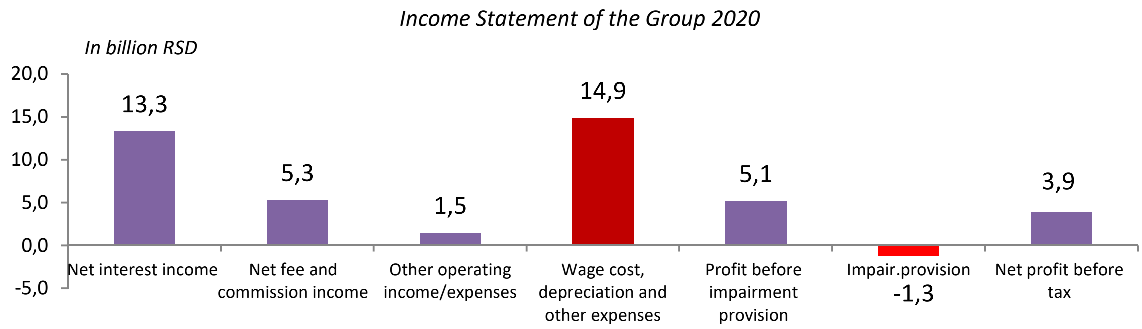
20 Same as 22.
21 Same as 23.

5.5. Consolidated Income Statement in period from 01.01 to 31.12.2021

Consolidated income statement in period from 01.01. to 31.12.2021

NO.	DESCRIPTION	31.12.2021.	31.12.2020.	INDICES
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES (in thousand RSD)			
1.1.	Interest income	14.422.584	14.731.985	97,9
1.2.	Interest expenses	(1.257.548)	(1.443.962)	87,1
1.	**Net interest income**	**13.165.036**	**13.288.023**	99,1
2.1.	Fee and commission income	8.140.671	7.205.485	113,0
2.2.	Fee and commission expenses	(2.063.067)	(1.938.963)	106,4
2.	**Net fee and commission income**	**6.077.604**	**5.266.522**	115,4
3.	Net profit /loss from change in fair value of financial instruments	6.772	98.046	6,9
4.	Net profit /loss from reclassification of financial instruments	-	-	-
5.	Net profit /loss from derecognition of financial instruments that are measured at fair value	197.257	174.399	113,1
6.	Net profit /loss from hedging	-	-	-
7.	Net income/expense from exchange differences and the effects of the agreed currency clause	1.688.689	17.980	9392,0
8.	Net income/expense from reduction of impairment of financial assets that are not measured at fair value through IS	(475.358)	(1.264.236)	37,6
9.	Net profit /loss from derecognition of financial instruments that are measured at amortized cost	-	-	-
10.	Net profit/loss from derecognition of investments in associates and joint ventures	(1.954.463)	-	-
11.	Other operating income	230.145	227.097	101,3
	TOTAL NET OPERATING INCOME	**18.935.682**	**17.807.831**	106,3
12.	Wage cost, wage compensation and other personal expenses	(5.685.180)	(6.491.790)	87,6
13.	Depreciation costs	(1.085.357)	(1.136.168)	95,5
14.	Other income	649.147	951.937	68,2
15.	Other expenses	(10.231.132)	(7.247.683)	141,2
	PROFIT/LOSS (-) BEFORE TAX	**2.583.160**	**3.884.127**	66,5
16.	Income tax	(4.676)	(7.309)	64,0
17.	Profit from deferred taxes	373.225	122.101	305,7
18.	Loss from deferred taxes	(174.116)	(1.391.735)	12,5
19.	**PROFIT /LOSS (-) AFTER TAX**	**2.777.593**	**2.607.184**	106,5
	Profit attributable to parent entity	2.777.593	2.607.183	106,5
	Profit belonging to non-controlling owners	-	1	-
	Basic earnings per share	216	150	144,0
	Reduced (diluted) earnings per share	216	150	144,0





During 2021, at the level of KB Group profit before tax was made in the amount of RSD 2,583.2 million. Consolidated profit before tax of KB Group during 2021 has been reduced by 33.5%, or by RSD 1,301.0 million when compared to the year 2020.

Group's interest income, in 2021, slightly decreased compared to 2020 (reduction by 2.1%), just as interest expenses were also reduced did (reduction by 12.9%). The above also resulted in decrease in Group's net interest income in amount of RSD 123.0 million, or 0.9%.

Consolidated fee and commission income, in the course of 2021 increased in comparison to the same period in 2020 by 13.0%. Fee and commission expenses recorded an increase but less in percentage terms where they increased by 6.4%, which resulted in the Group's net fee and commission income being 15.4% higher than in 2020.

During 2021 net expense from impairment of financial assets that are not measured at fair value through income statement was realized in the amount of RSD 475.4 million, unlike in 2020, when the net expenses in the amount of RSD 1,264.2 million were realized. Changes in the mentioned position during 2021 also affected the final result of the Group's operations.

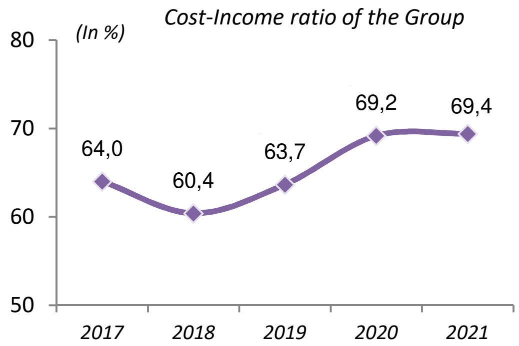
During 2021 net profit was also recorded from derecognition of financial instruments that are measured at fair value in the amount of RSD 197.3 million, while in course of 2020 net profit was recorded in the amount of RSD 174.4 million.

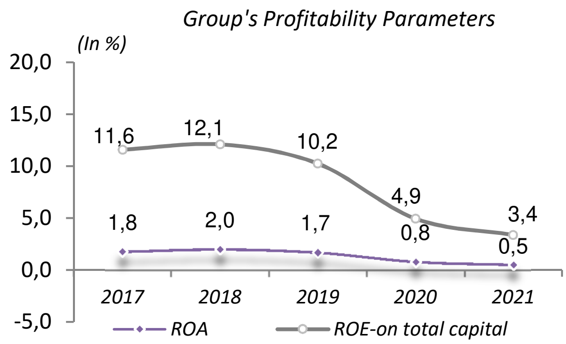
Wage costs, wage compensation, depreciation costs and other expenses are increased compared to 2020 by 14.3%, and/or they are higher by RSD 2,126.0 million.

The position other income of the Group recorded a decrease of RSD 302.8 million, or a reduction of 31.8% during 2021 in comparison to 2020.
During 2021 the Group recorded net loss from derecognition of investment in associates and joint ventures in the amount of RSD 1,954.5 million, whereas in previous year there is no such position in the income statement.

Realized consolidated profit before tax during 2021 amounts to RSD 2,583,2 million and is lower by 33.5% compared to result achieved during the year 2020.

5.6. Group Profitability Indicators





5.7. Consolidated Income Statement in Period from 01.01 to 31.12.2021 –Group Members

	DESCRIPTION	KB Beograd	KB Podgorica[22]	KB Banja Luka[23]	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	(in thousand RSD)					
1.1.	Interest income	13.094.749	610.633	716.714	488	14.422.584
1.2.	Interest expenses	(958.313)	(93.697)	(205.538)	0	(1.257.548)
1.	**Net interest income**	**12.136.436**	**516.936**	**511.176**	**488**	**13.165.036**
2.1.	Fee income	7.632.534	210.005	270.594	27.538	8.140.671
2.2.	Fee expenses	(1.909.661)	(85.559)	(67.578)	(269)	(2.063.067)
2.	**Net fee income**	**5.722.873**	**124.446**	**203.016**	**27.269**	**6.077.604**
3.	Net profit/loss from change in fair value of financial instruments	4.823	0	0	1.949	6.772
4.	Net profit/loss from derecognition of financial instruments that are measured at fair value	197.243	0	0	14	197.257
5.	Net income /expense from exchange differences and the effects from agreed currency clause	1.672.240	14.180	2.276	(7)	1.688.689
6.	Net income /expense from reduction of impairment of financial assets that are not measured at fair value through IS	15.772	(475.545)	(15.585)	0	(475.358)
7.	Net profit /loss from derecognition of investments in associates and joint ventures	(1.954.463)	0	0	0	(1.954.463)
8.	Other operating income	210.848	6.499	12.798	0	230.145
I	**TOTAL NET OPERATING INCOME**	**18.005.772**	**186.516**	**713.681**	**29.713**	**18.935.682**
9.	Wages cost, wage compensation and other personal expenses	(4.961.166)	(404.856)	(302.329)	(16.829)	(5.685.180)
10.	Depreciation costs	(912.825)	(77.981)	(94.488)	(63)	(1.085.357)
11.	Other income	587.010	34.480	27.646	11	649.147
12.	Other expenses	(9.626.605)	(329.316)	(265.813)	(9.398)	(10.231.132)
II	**PROFIT BEFORE TAX**	**3.092.186**	**(591.157)**	**78.697**	**3.434**	**2.583.160**
13.	Income tax	0	(1.261)	(3.413)	(2)	(4.676)
14.	Profit from deferred tax	348.040	24.181	715	289	373.225
15.	Loss from deferred tax	(165.725)	(8.391)	0	0	(174.116)
III	**PROFIT /LOSS (-) AFTER TAX**	**3.274.501**	**(576.628)**	**75.999**	**3.721**	**2.777.593**
	Profit belonging to non-controlling owners	-	-	-	-	-

[22] In period from 01.01 to 12.11.2021
[23] In period from 01.01 to 08.12.2021

6. FINANCIAL INSTRUMENTS SIGNIFICANT FOR ASSESSING THE GROUP'S FINANCIAL POSITION

For an adequate assessment of the Group's financial position at the end of the 2021 business year, the following financial instruments and balance sheet items are of key importance: loans and receivables from customers, securities, cash and funds with the central bank, deposits and other financial liabilities to other customers and capital.

The position loans and receivables from customers accounted for 42,7% of total consolidated assets and has been decreased by RSD 10.388,7 million in comparison to the end of 2020. Detailed structure of loans and advances to customers is presented in the Notes to Consolidated Financial Statements.

The position securities made for 30,6% of total consolidated assets of the Group and has been reduced by RSD 8.694,6 million compared to 2020 and mainly consists of investments of the Parent Bank in securities of the Republic of Serbia (RSD 149.588,8 million, 99,9%) (detailed structure is presented in the Notes to Consolidated Financial Statements).

Cash and funds with central bank at the end of 2021 accounted for 16,8% of consolidated assets and have been reduced by RSD 4.836,6 million compared to the end of 2020 (detailed structure is presented in the Notes to Consolidated Financial Statements).

On the other hand, the position deposits and other financial liabilities to other customers accounted for 82,4% of consolidated liabilities and it was decreased by RSD 2.905,6 million. Deposits were the main source of financing for KB Group in 2021 as well (detailed structure is presented in the Notes to Consolidated Financial Statements).

The position total capital of the Group made for 15,5% of consolidated liabilities and is reduced by RSD 2.484,1 million, mainly due to decrease of capital reserves.

The members of the Group are well capitalized, and the capital adequacy ratio of the Group is 28,55% and is significantly above the prescribed limit.

7. OPERATION OF BRANCHES BEFORE CONSOLIDATION

Komercijalna banka ad Beograd, the Parent Bank, keeps business books and prepares financial statements in accordance with the accounting regulations of the Republic of Serbia.

KOMBANK INVEST ad Beograd prepares financial statements in accordance with the accounting regulations of the Republic of Serbia.

For the purpose of preparing consolidated financial statements, the individual audited financial statements of the Parent Bank, subsidiary banks, Komercijalna banka ad Banja Luka and Komercijalna banka ad Podgorica while they were in the status of subsidiary banks, and KOMBANK INVEST Company were adjusted to the presentation of financial statements based on:

- Accounting regulations of the Republic of Serbia,
- Internal acts of the Parent Bank - Komercijalna banka AD Beograd and
- Relevant IAS and IFRS.

Reclassified individual balance sheets of the Group members before consolidation as of 31.12.2021

DESCRIPTION	KB Beograd	KomBank INVEST
(in thousand RSD)		
Cash and funds with central bank	82.055.481	53
Pledged financial assets	0	0
Receivables from derivatives	0	0
Securities	149.588.755	155.264
Loans and receivables from banks and OFO	29.114.381	16.320
Loans and receivables from customers	209.044.942	0
Investments in associates and joint ventures	1.488.063	0
Investments in subsidiaries	140.000	0
Intangible assets	582.101	0
Property, plant and equipment	8.755.659	81
Investment property	2.610.531	0
Current tax assets	18.911	74
Deferred tax assets	509.242	2.773
Non-current assets intended for sale and assets from discontinued operations	101.614	0
Other assets	5.430.725	2.680
TOTAL ASSETS	**489.440.405**	**177.245**
Liabilities from derivatives	0	0
Deposits and other financial liabilities to banks, other financial organizations and central bank	2.134.969	0
Deposits and other financial liabilities to other customers	403.286.418	0
Provisions	4.233.853	17.876
Current tax liabilities	0	0
Deferred tax liabilities	0	0
Other liabilities	4.142.443	1.321
TOTAL LIABILITIES	**413.797.683**	**19.197**
Total capital	**75.642.722**	**158.048**
TOTAL LIABILITIES	**489.440.405**	**177.245**

NOTE: For the purposes of consolidation, reclassification of items in the individual (statutory) financial statements of the Group members that affect the adjustment of the balance sheet total and results in the income statement presented in the statutory reports is performed. The adjusted (reclassified) financial statements represent the opening balance sheet reports and items that are subject to further consolidation.

Reclassified individual income statements of the Group members before consolidation for the period from 1.1. to 31.12.2021

DESCRIPTION	KB Beograd	KB Podgorica[24]	KB Banja Luka[25]	KomBank INVEST
(in thousand RSD)				
Interest income	13.103.701	610.913	716.714	488
Interest expenses	(958.592)	(98.388)	(209.800)	0
Net interest income	**12.145.109**	**512.526**	**506.913**	**488**
Fee and commission income	7.647.524	210.079	271.018	27.538
Fee and commission expenses	(1.910.160)	(92.629)	(72.700)	(3.067)
Net fee and commission income	**5.737.364**	**117.450**	**198.318**	**24.471**
Net profit/loss from change in fair value of financial instruments	4.823	0	0	1.949
Net profit/loss from derecognition of financial instruments that are measured at fair value	197.243	0	0	14
Net income/expense from exchange differences and effects of agreed currency clause	53.070	14.180	2.276	(7)
Net income/expense from reduction of impairment of financial assets that are not measured at fair value through IS	15.772	(475.545)	(15.585)	0
Net profit/loss from derecognition of financial instruments. that are measured at amortized cost	0	0	0	0
Net profit/loss from derecognition of investments in associates and joint ventures	563	0	0	0
Other business income	211.190	6.499	12.798	0
TOTAL NET OPERATING INCOME	**18.365.134**	**175.110**	**704.721**	**26.915**
Wage cost, wage compensation and other personal expenses	(4.961.166)	(404.856)	(302.329)	(16.829)
Depreciation costs	(912.825)	(77.981)	(94.488)	(63)
Other income	587.010	34.480	27.646	11
Other expenses	(9.614.769)	(329.660)	(265.813)	(9.398)
PROFIT /LOSS (-) BEFORE TAX	**3.463.384**	**(602.908)**	**69.737**	**636**

8. BUY-BACK OF TREASURY SHARES

Group members did not acquire treasury shares in the business year of 2021 and do not intend to acquire treasury shares in the upcoming period through the offer for acquisition of treasury shares.

At the moment of preparing this report, the activities were underway, as prescribed by the law, on finalizing the process of merging NLB Banka ad Beograd with Komercijalna banka ad Beograd. An extraordinary General Meeting of the Bank's Shareholders was held on December 23rd 2021 where one of the items was the "Decision on accepting the merger of NLB Banka ad Beograd to Komercijalna banka ad Beograd". In accordance with the Company Law, (the Law) the shareholders that do not agree with this decision had a legal right to demand that the Bank buys these shares under the terms and in the manner specified in the provisions of Article 475 of the Law. As the result of this process and on the basis of the right of the dissenting shareholders, it is expected that the Bank will acquire a certain number of treasury shares during 2022.

[24] In period from 01.01 to 12.11.2021
[25] In period from 01.01 to 08.12.2021

9. RISK MANAGEMENT

9.1. Goals and policies for managing financial risks

On a subconsolidated level, the banking Group Komercijalna banka ad Beograd is composed of the Parent Bank Komercijalna banka ad Beograd (hereinafter: the Bank) and the Investment Fund Management Company KomBank Invest. Together with its subsidiaries, the Bank became a member of the banking Group in late 2020 and during 2021 harmonization was carried out with the risk management standards. Bearing in mind the different nature of operation and the scope of operation, the Bank is dominant, while the banking Group standards have been applied to the subsidiary, with respect to the nature and scope of operation. The Bank has established three lines of defense that cover:

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

The Parent Bank has established a comprehensive and reliable risk management system that includes: the risk management framework and the statement of assuming risks, strategies, policies and procedures for risk management, methodologies for managing individual risks, the adequate organization structure, effective and efficient process of managing all the risks the Parent Bank is exposed to or may be exposed to in its operation, adequate internal control system, adequate information system and adequate internal capital adequacy assessment process. Also, the Bank's Recovery Plan is integrated in the risk management system, as a mechanism for early identification of the situation of a serious financial disturbance in which the Parent Bank may undertake measures i.e. apply the defined recovery options with the aim of preventing the entrance into the early intervention stage where the regulator has an active participation or an improvement of the already deteriorated financial condition. The risk management framework is the formalization of the Bank's appetite to material risks, which means defining targets, tolerance and limits for all materially significant risks that can be quantified. With 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 capital with the adherence to the defined framework for the acceptable risk level, managing the necessary level of capital adequacy, development of the activities of the Parent Bank in accordance with the business strategy and the possibilities and development of the market with the aim of creating competitive advantages, diversification of risks the Parent Bank is exposed to, maintaining the share of NPL in total loans on the level below the defined limit, maintaining the concentration risk ratio from exposure to certain types of products below the level specified in the regulations, maintaining the share of loans in dinars with a currency clause in foreign currency and the loans in foreign currency in the total loans of the Parent Bank below the level specified in 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 changes in the regulatory framework, analyzes the effect on risk level and takes measures for timely harmonization of its operation with new regulations.

In the first half of the year the Parent Bank implemented the activities of bringing itself into compliance with the new regulations, particularly in the part of the regulatory framework that regulates the measures for preserving the stability of the financial system, as well as support to the economy for mitigating the consequences of COVID – 19 pandemic by the National Bank of Serbia and the Ministry of Finance of the Republic of Serbia (a break in repayment of liabilities – moratorium, guarantee scheme, etc.) in the environment caused by the COVID – 19 pandemic. Through clearly defined process of introducing new and significantly changed products, services and activities in relation to the processes and systems, the Parent Bank analyzes their effect on future exposure to risks with the aim of optimizing its revenue and expenses for estimated risk, as well as minimizes all potentially possible adverse effects on the Bank's financial result. A detailed overview of the risk management targets and policies on consolidated basis is given in the Notes to Financial Statements.

Policy of protection against exposure to credit risk

With the aim of protection against exposure to credit risk, the Parent Bank applies the techniques for mitigation of the credit risk by obtaining also acceptable security instruments (collaterals), as well as secondary sources of collection of loans. The Parent Bank strives to operate with the clients of good credit rating, assessing it at the moment of submitting the application and through regular monitoring of the borrower, the loan and the collateral, with the aim of undertaking the appropriate, timely activities in the process of collection. The types of security for receivables depends on the assessment of the borrower's credit risk and are determined in each individual case and they are obtained after signing the contract and before disbursing the loan.

The Parent Bank has significantly improved the process and system of managing the social and environmental risk in 2021.

The Parent Bank regulated, with its internal documents, the appraisal of instruments of credit protection and management of those instruments.

The Parent Bank pays particular attention to the marketability and adequate valuation of collaterals, in relation to which, when appraising the value of the collateral, it hires licensed valuers so that the potential risk of unrealistic valuation is reduced to the lowest possible level and the real estate, goods, equipment and other movable items that are pledged must be insured by an insurance company acceptable for the Parent Bank, with the 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 haircut, depending on the type of collateral and the location of the real estate, which are regularly revised and reconsidered.

The Parent Bank pays particular attention to monitoring the collaterals and undertakes activities on securing new valuations, but also on acquiring additional collaterals, primarily from the clients with identified problems in operation, but also from the clients where the coverage of exposure by collaterals is reduced due to the decrease in the value of obtained collaterals.

With the aim of adequate risk management, the Parent Bank performs the activities of credit risk analysis when approving lending and by establishing the system for monitoring, prevention and management of non-performing loans, including also adequate identification of potential NPL clients (Watch List), mitigates credit risk with clients of the aforementioned status, as well as by undertaking the measures and actions aimed at protecting the Parent Bank's interest and preventing the adverse effects on the Parent Bank's financial result and equity. The Watch List was significantly improved in the first half of 2021, in accordance with the process of harmonization with the new owner NLB dd Ljubljana. As part of the Watch List the following categories were defined: WL1 (level 1), WL2 and ICL (level 2).

During 2021 the Parent Bank continued improving the risk management system by taking into account the process of harmonization with the new owner NLB dd Ljubljana, the requirements of the external auditor, as well as the effect of COVID – 19 pandemic. The Bank revised the Risk Management Strategy (decreased the highest acceptable level of NPLs, created new and updated the existing targets, tolerance and limits for the most important risk parameters and amended the procedures and methodologies with the aim of bringing them into compliance with the NLB Group requirements.

In the first half of 2021, in the environment of COVID – 19 pandemic, with a slight improvement of the business environment, the Parent Bank continued to maintain the quality of its loan portfolio by performing regular analyses of the effect of the pandemic on the decrease in business activities and a decrease in the financial potential of the clients from the most affected industries and continued to resolve the problems of the customers who had already been recognized as problematic and it also performed the activities on reducing NPLs. In accordance with the Decision of the National Bank of Serbia, due to the effect of the COVID – 19 pandemic, the most affected clients were allowed moratorium 3 (extension of the loan repayment period with a grace period of 6 months) and, in accordance with the Decision of the Government of the Republic of Serbia, liquidity and refinancing loans were approved from the Guarantee Scheme. Also, in accordance with the Decision of the National Bank of Serbia on the accounting write-off of the bank's balance-sheet assets, the Parent Bank continued to transfer the 100% impaired loans to off-balance-sheet record. The Parent Bank's activities on maintaining the quality of the loan portfolio in the environment caused by COVID – 19 pandemic resulted in the decrease in the NPL level.

In the first half of 2021 also the Decision of the National Bank of Serbia that prescribes a pause in the repayment of the borrower's liabilities (moratorium 3) was applied. A grace period of 6 months was allowed to clients who met the conditions from the NBS Decision (consequence of the effect of COVID – 19) and who requested the moratorium 3 in the environment of potential risks caused by the extraordinary health situation in the country. Also, the Government of the Republic of Serbia passed a decree on extension of the guarantee scheme 1 and the new guarantee scheme 2 with the aim of supporting the financing of corporate clients. The Parent Bank applies IFRS 9 standard and, in accordance with this standard, it calculates the impairment of balance-sheet assets and probable loss from off-balance-sheet items. The Parent Bank applies the "expected loss" concept by factoring in the effect of the expected trend in macroeconomic effects on the future trends in the probability of default on the basis of statistically proven interdependencies. The portfolio is differentiated into three levels that monitor the client's status (level 1 – PL clients without the identified deterioration of credit risks, level 2 – PL clients with identified deterioration of credit risk – measured with a set of defined criteria, level 3 – NPL clients), with defined criteria for the transfer of clients from higher into lower levels. Also, in accordance with the IFRS 9, the Parent Bank calculates the impairment also for the exposure to the Republic of Serbia and the National Bank of Serbia.

The Parent Bank brought itself into compliance also with the amended regulations in the part that relates to the definition of default.

During 2021 the Parent Bank compared all aspects of the credit risk management system and process. The system of triggers for stage 2 and 3, methodology for impairment of financial assets, haircuts for collaterals, inclusion of the forward-looking component in the LGD parameter were improved. A special aspect of credit risk management was the analysis of future trends in risk factors.

9.2. Risk exposure (price, credit, liquidity and cash flow risk) with the strategy for managing risks and assessment of their efficiency

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

1. credit risk and risks related to it,
2. liquidity risk,
3. market risk,
4. interest risk in the Banking book,
5. operational risk,
6. investment risk,
7. exposure risk,
8. country risk, as well as all other risks that might arise in the Bank's regular operations.

Not all of the above listed risks are present in the operation of the subsidiary, bearing in mind the nature and scope of operation.

Credit risk is the possibility of occurrence of adverse effects on the Parent Bank's financial result and equity, due to the borrower's failure to meet their liabilities to the Parent Bank.

Credit risk is conditioned on the borrower's creditworthiness, their duly settlement of liabilities to the Bank, as well as the quality of the security instruments. An acceptable level of exposure to the credit risk is in line with the defined Risk Management Framework and the Risk Management Strategy and depends on the structure of the Parent Bank's portfolio, on the basis of which it is enabled to limit the adverse effects on the Parent Bank's financial result and equity, while minimizing the capital requirements for credit risk, counterparty risk, risk of a reduction in the value of purchased receivables, risk of settlement/delivery in relation to free deliveries and with the aim of maintaining capital adequacy at an acceptable level. The Parent Bank manages credit risk on client level, the level of a group of related entities and on the level of the whole loan portfolio. The Parent Bank approves loans to clients (legal entities and private individuals) for which it assesses that they are creditworthy, by performing an analysis i.e. quantitative and/or qualitative measurement and assessment of credit risk and the borrower's financial situation. The process of measuring credit risk is based on measuring the level of difference of an individual loan on the basis of the internal rating system, as well as on the basis of implementation of NBS regulations, which requires classification of each lending on the basis of the specified criteria.

By monitoring and controlling the portfolio in its entirety and per individual segments, the Parent Bank makes a comparison with the previous periods, identifies the trends and the causes of changes in the level of credit risk. Also, it monitors the asset quality indicators (trends in NPL, the level of coverage of NPL by impairments, etc.), as well as the exposure according to regulatory and internally defined limits. The decision on managing the concentration risk in relation to certain types of products introduced also the monitoring and reporting on the degree of loan indebtedness of private individuals (DTI ratio). These regulations are somewhat relaxed with the amendments and supplements passed by the National Bank of Serbia with the aim of bringing them into compliance with the current business circumstances, caused by the COVID – 19 pandemic. The process of monitoring the quality of the loan allows the Bank to estimate the potential losses, as the result of the risk it is exposed to and to undertake appropriate corrective measures. On the other hand, the Parent Bank does not invest in high-risk lending such as investment into potentially profitable projects that carry a high risk, in investment funds of high-risk portfolio, etc.

Liquidity risk is the possibility of occurrence of adverse effects on the Bank's financial result and equity due to the Parent Bank's inability to meet its due liabilities as the result of withdrawal of the existing funding sources and the inability to obtain new funding sources – liquidity risk of the funding sources, as well as hindered conversion of assets into liquid funds, due to disturbances in the market – market liquidity risk.

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

The liquidity risk is expressed also in the Parent Bank's inability to transform certain parts of assets into liquid assets within a short period. The Parent Bank analyzes the risks of funding sources and the liquidity market risk. The problem of liquidity from the aspect of the funding sources relates to the structure of liabilities i.e. the obligations and is expressed as potentially significant share of unstable sources, short-term sources or their concentration. The liquidity risk of the funding sources is, actually, the risk that the Parent Bank will not be able to meet its obligations due to the withdrawal of the unstable funding sources i.e. the inability to obtain new funding sources. On the other side, the liquidity risk is expressed also as the deficit of the liquidity reserves and hindered or impossible acquisition of liquid assets at acceptable market prices. With the aim of adequately managing the liquidity risk, during 2021 the Parent Bank established the process of internal liquidity adequacy assessment process (ILAAP) which is implemented at least once a year. The Bank has established the internal limit system and the risk appetite framework, in accordance with the Group's standards for the structural liquidity indicators, as well as with the nature of the Bank's operation.

During 2021 the Parent Bank was compliant with the regulatory and internally defined limits, as well as the Risk Management Framework, and the liquidity risk ranged within the controlled limits. The Parent Bank actively undertakes preventive measures with the aim of minimizing the exposure to liquidity risk.

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

The Parent Bank is exposed to ***FX risk*** which manifests as a possibility of occurrence of the adverse effects on the financial result and equity due to the volatility of exchange rates, the share, change in the value of the local currency against foreign currencies or the change in the value of gold and other precious metals. With the aim of minimizing the exposure to FX risk, the Bank diversifies the currency structure of its portfolio and liabilities, harmonizes the open positions for certain currencies, while observing the principles of maturity transformation of assets. During 2021, the Bank was compliant with the regulatory FX risk ratio which is expressed as 20% of the regulatory capital, as well as with the significantly more conservative internally set limits i.e. the defined Risk Management Framework.

Interest risk is the risk of occurrence of adverse effects on the Bank's financial result and equity in relation to the items from the banking book due to adverse changes in the interest rates. The Parent Bank establishes, in a comprehensive and timely manner, the causes of the current and assesses the factors of the future exposure to interest risk. The exposure to this type of risk depends on the ratio of interest sensitive assets and liabilities. Managing interest risk aims at maintaining the acceptable level of exposure to interest risk from the aspect of effect on the financial result and the economic value of equity, buy pursuing adequate policy of maturity match between the period of reestablishment of interest rates and adjustment of the funding sources according to the level of interest rate and maturity. During 2021 the Parent Bank improved the interest risk management process.

During 2021 the Parent Bank was compliant with the regulatory and internally set limits, as well as with the Risk Management Framework.

Operational risk is the risk of loss that arises due to the lack or errors in the functioning of internal processes, systems and people or due to external events. Operational risk includes legal risk, but not also strategic and reputational risk. However, due to its importance, the reputational risk is taken into account when managing operational risk. Operational risk is defined as an event that has occurred as the result of inadequate or unsuccessful internal processes, employee actions and systems or systemic and other external events, internal and external fraud, employment practice and occupational safety, client's receivables, distribution of products, fines and penalties due to breaches, damage caused to material property, disturbances in the operation and systemic errors and process management.

Measurement or the assessment of the Parent Bank's operational risk is carried out through quantitative and/or qualitative assessment of the identified operational risk. The Parent Bank measures the exposure to operational risk through the record of events, monitoring the key risk indicators and determining the operational risk profiles.

The key risk indicators are an early warning for signaling changes in the Bank's risk profile. They relate to certain operational risk and show higher exposure in the occurrence of the operational risk event. Their purpose is to provide assistance in reducing the losses and operational risks through proactive analysis of the risk factors.

The Bank's operational risk profile is the Bank's exposure to operational risk and it serves as the basis for passing additional decisions that would improve the existing operational risk profile and draw it to the final profile. The existing profile of identified operational risks is the result of identification and assessment of operational risks within certain processes by the organizational units, which is performed at least once a year. The existing operational risk profile includes operational risks that the operational risk custodians (persons responsible for monitoring operational risks, as well as other employees) see within their organizational units or outside of them. During 2021, apart from the other assessments of operational risks in the processes, the Parent Bank also assessed its exposure to operational risks in the environment of the Covid – 19 pandemic, as well as in the integration process and identified operational risks. For the identified operational risks appropriate risk mitigation measures were defined.

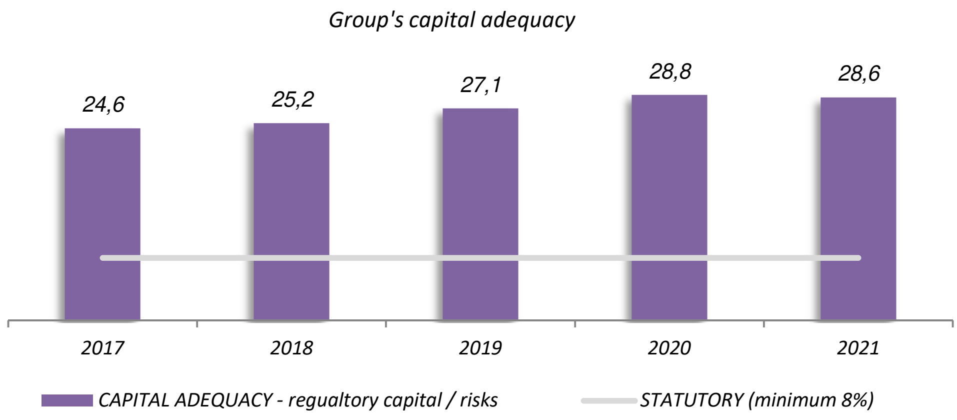
The Parent Bank takes measures aimed at mitigating operational risks and reacting proactively to potential operational risk events through permanent monitoring of all activities, monitoring key risk indicators that are an early warning for signaling changes in the Bank's risk profile, application of adequate and reliable information system, whose implementation improves the business practice and optimizes the Bank's business processes. Due to the increase in the systemic risk related to the litigation against the Bank, in relation to collected fees for loans disbursement and the insurance premium for NMIC, during 2021 the Bank made timely provisioning for the legal claims against the Bank, and in accordance with the assessment of the future expected loss on those grounds, due to which it recorded and increase in the limits defined internally in the Risk Management Framework.

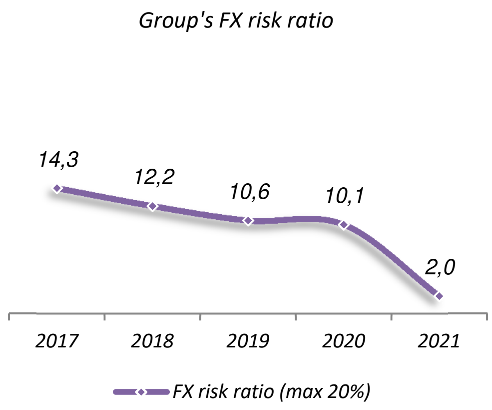
Investment risk of the Parent Bank is the risk of investing in other legal entities and in fixed assets and investment property. In accordance with the regulations of the National Bank of Serbia, the level of permanent investment is monitored and the Bank's bodies and committees are informed about that. In this manner it is ensured that the Parent Bank's investment in one entity that is not in the financial sector does not exceed 10% of the Parent Bank's equity and that the Bank's investment into entities that are not in the financial sector and in fixed assets and investment property of the Bank does not exceed 60% of the Bank's equity.

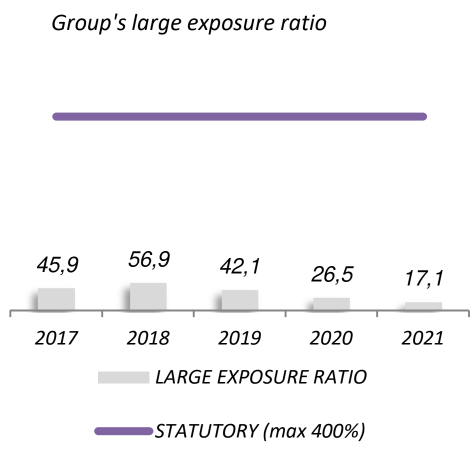
Large exposure of the Bank to a single entity or a group of related entities, including the persons related to the Parent Bank is the exposure that amounts to at least 10% of the Bank's equity. During 2021 the Parent Bank was compliant with the regulatory and internally defined exposure limits.

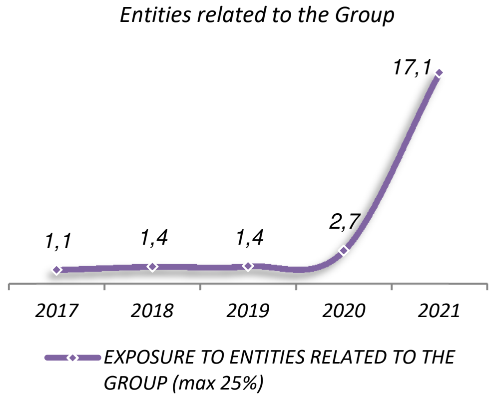
Country risk is the risk relating to the country of origin of the entity the Parent Bank is exposed to or the risk of the possibility of occurrence of adverse effects on the Parent Bank's financial result and equity due to the Bank's inability to collect receivables from the borrower for reasons that are the consequence of political, economic or social circumstances in the borrower's country of origin. The Bank's exposure to the country risk is at an acceptable level.

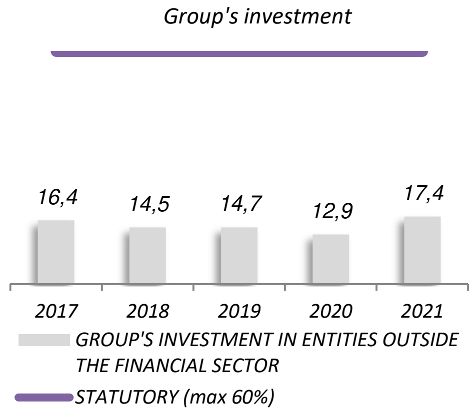
A detailed presentation and the explanation of the risks the Group is exposed to in its operation are given in item 4. Risk Management and the Notes to Financial Statements.


Group's capital adequacy
24,6
25,2
27,1
28,8
28,6
2017
2018
2019
2020
2021
CAPITAL ADEQUACY - regualtory capital / risks
STATUTORY (minimum 8%)


Group's FX risk ratio
14,3
12,2
10,6
10,1
2,0
2017
2018
2019
2020
2021
FX risk ratio (max 20%)


Group's large exposure ratio
45,9
56,9
42,1
26,5
17,1
2017
2018
2019
2020
2021
LARGE EXPOSURE RATIO
STATUTORY (max 400%)


Entities related to the Group
17,1
1,1
1,4
1,4
2,7
2017
2018
2019
2020
2021
EXPOSURE TO ENTITIES RELATED TO THE GROUP (max 25%)


Group's investment
16,4
14,5
14,7
12,9
17,4
2017
2018
2019
2020
2021
GROUP'S INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR
STATUTORY (max 60%)

10. NONFINANCIAL INFORMATION ABOUT THE GROUP

10.1. Group's business model

The Group Komercijalna banka ad Beograd operates as a commercial bank of universal type. In its operation the Bank is equally focused on work with retail customers, legal entities and registered farms. The Group's activities include lending, deposit and guarantee operations and the payment transactions operation in Serbia and abroad, in accordance with eth Law on Banks, as well as managing investment funds.

The Bank operates independently, on market principles, with the implementation of the principle of liquidity, profitability and security, with the observance of the law, other regulations and general principles of the banking operation in realizing its targets in a socially responsible manner, in accordance with the basic values and business ethics.

The Bank's business model is defined as gathering, holding unemployed funds from legal entities and private individuals on defined terms (principle and interest) and investment of the gathered funds to legal entities and private individuals in the form of loans on different, defined terms (principal and interest), investment in securities and other registered activities.

The key business activity of the company KomBank INVEST is organizing and managing UCITS fund. Exceptionally, the Company may manage other institutions of collective investment in accordance with the special law and in regard to which it is subject to prudential supervision. The Company's assets are the property and rights owned by the Company, as well as other rights of the Company. The Company is liable for all its obligations with its total assets.

The Company manages the operation and activities of the following funds:

1. KOMBANK INFOND

The primary investment goal of the management company is to allow the members of the UCITS fund, with responsible and professional management, to achieve high rates of return on the funds invested for a longer term, while assuming moderate risk.
The key investment goal (benchmark) of the UCITS fund is to achieve the rate of return that continuously follows the trends in the leading world indices.
Bearing in mind also the choice to invest in financial instruments that are volatile, on a daily basis, to the change in the market conditions, as well as the composition of the UCITS fund's portfolio, moderate volatility of the investment unit is possible.

2. KOMBANK MONEY FUND

The investment goal of UCITS fund is to allow to its members, trough responsible and professional management, stable return with as high profitability of investment as possible and with a low level of risk and while maintaining the liquidity of the assets at the highest possible level.
The key investment goal (benchmark) of UCITS fund is to achieve the rate of return that continuously follows the trends in the daily BEONIA (Belgrade over-night interest rate) interest rate as the benchmark indicator for the UCITS fund.

3. KOMBANK FX FUND

The investment goal of the UCITS fund is to allow to its members, through responsible and professional management, a stable return with as high profitability of investment as possible with a low level of risk and while maintaining the liquidity of the assets at the highest possible level.
The key investment goal of the UCITS fund (benchmark) is the achievement of returns that continuously follow the trends in the EURIBOR interest rate, as well as other benchmark rates on the FX market.

10.2. Investment in environmental protection

The Group observes the international standards and values when creating financial products and services, develops and implements the activities in the area of environmental protection and the protection of human and labor rights.
Komercijalna banka Beograd, the Parent Bank particularly cares for the protection of the natural environment and is committed to responsible operation that involves striving towards minimizing waste, optimizing the consumption of resources with the aim of reducing the environmental effect to the lowest possible level, as well as the appropriate management of potential environmental risks when lending. The measures that are taken in order to reduce the adverse effect on the environment are:

Printing/recycling paper and the environmental effect
Reducing printing is a constant and long-term process in Komercijalna banka that was initiated with the introduction of DMS as early as in 2012. During the past several years the Bank has introduced electronic post office where the total incoming post is scanned and sent, in digital form, to the organizational units in the Bank. Lately, the documents have been signed with a certified electronic signature and the Bank constantly works on digitizing its business processes, which results in constant reduction of paper consumption (in the period 2019-2020 by 20%, and in the period 2020-2021 by additional 19%). One of the targets of the project of relocating the Bank's headquarters is the introduction of paperless manner of operation. After selecting the archives whose storage deadline has expired, it is separated to be destroyed and recycled in accordance with the strictest standards and procedures.

Waste recycling
Waste management means sorting waste into commercial waste and electric and electronic equipment waste. Disposal of electric and electronic waste is done after the completion of the annual inventory of fixed assets by handing this waste over to a company certified for managing this type of waste which, upon completed transport, submits to the Bank a verified certificate that the waste has been received.

Use of light
With its daily activities, Komercijalna banka contributes to savings in electricity by keeping lights off in premises that are not used and that light is turned on only when needed. The Bank has also started installing LED bulbs in its premises. With the relocation of het Bank's headquarters, the Bank plans to implement the technological solutions that will make the headquarters a smart building with the implemented BMS (building management system) and solar panels that will additionally contribute to lower energy consumption.

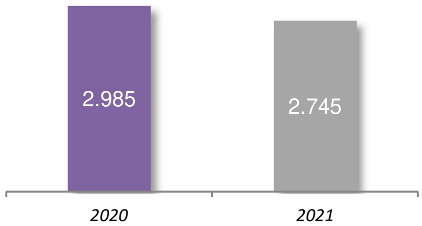
Reduction in CO2 emission
Having recognized the importance and the adverse trend of increasing CO2 emission on a global level, Komercijalna banka has taken a whole set of measures aimed at limiting its own effect on CO2 emission. Starting from 2022 Komercijalna banka has ensured that all consumed electricity comes exclusively from renewable energy sources. In this manner, the indirect incentive for the greenhouse gases that are the result of coal burning has been avoided. Also, activities have been initiated on calculating the total emission of these gases due to the regular activities of Komercijalna banka and the results of these activities will be used in order to establish the strategies focused on further decrease in the emission of all harmful gases.

Environmental protection system
Komercijalna banka works actively on establishing the Environmental and Social Management System (ESMS) which will ensure daily analysis, limitation and management of all potential social or environmental risks, which might arise from lending to certain industries or projects. The Environmental and Social Management System will function in accordance with the principles and rules adopted by the European Bank for Reconstruction and Development (EBRD), Multilateral Investment Guarantee Agency (MIGA) and the legal frame of the republic of Serbia, which will ensure the highest standards when managing social and environmental risks.

10.3. Social and HR issues of the Group

As of December 31st 2021 the Group had a total of 2,745 employees, 240 fewer than in the previous year 2020. The decrease was the result of the changes during 2021 i.e. the sale of a member of the Group Komercijalna banka ad Banja Luka and the merger of the member of the group Komercijalna banka ad Podgorica to NLB banka ad Podgorica. The data of 2,745 employees includes the employees of the Parent Bank, the company KomBank INVEST and NLB Banka ad Podgorica.

Number of employees in the Group



Group members independently define and implement the HR policy in accordance with the individual business policies, strategies and business plans.
HR management mission in Komercijalna banka is the development and maintenance of a high level of expertise and motivation of the employees, with the aim of achieving the Bank's business plans. With continuous optimization of the number and structure of employees, over the past years, the Bank's efficiency has also grown, measured as asset per employee.

During 2021 the responsible organizational units in the Group's members organized and realized the training sessions for its employees in accordance with the current, local health situation.
During 2021 the HR Division of the Parent Bank participated in organizing employee training where 99% of them attended online training. With the outbreak of the COVID 0 19 virus in the Republic of Serbia, with the aim of increasing health security, the employees were mostly sent to training sessions that did not require presence in person. Out of the total number of trainees, women accounted for 72.6% while men accounted for 27.4% of the attendees.

Since 2008 the Parent Bank performs the annual evaluation of the work of employees on the basis of the set annual targets, monitoring the achievement of those targets, but also on the basis of the skills the employees have exhibited when achieving the targets. The annual employee evaluation forms the grounds for bonus, career planning, budget planning and the plan of employee training. In 2021 the process of setting targets, monitoring the results and rewarding employees was harmonized with the standards on the level of NLB Group.

Employees in the Parent Bank have the freedom to unionize. Since 2010 an Independent Union of Komercijalna banka ad Beograd has been acting in the Bank. The union is independent in its work and provides adequate support to all the employees, not only its members, in order for the work conditions of all the employees to be at an adequate level.

Employees of the Parent Bank are enabled to report cases of mobbing at the workplace. During 2021, there were no reported cases of workplace mobbing. At the Parent Bank, women and men are equal in terms of the amount of salary for a job that requires the same qualifications and the same complexity, i.e., they receive the same salary for the same type of work they perform.

During 2021, as well as in 2020, during the Covid-19 virus pandemic, employees were enabled, in accordance with their possibilities, to opt for work in the Bank's premises or for work from home. Employees are allowed to decide for themselves whether to be vaccinated or not.

In order to protect the health of workers, since the outbreak of the pandemic caused by the COVID-19 virus, the Parent Bank has taken a number of measures, of which the following stand out:

- employees are provided with work from home in cases where this work can be organized;
- disinfectants and protective masks were provided for employees who continued to work in the Bank's official premises;
- in accordance with the provisions of the Labor Law and the Collective Agreement of the Bank, temporary interruption of work is provided at the request of employees, with reported chronic diseases. Employees during the interruption of work are entitled to salary compensation in the amount of 80% of the salary that the employee would have earned if he/she worked.
- in accordance with the recommendations from the conclusions of the Government of the Republic of Serbia, employees are granted payment of salary compensation in the amount of 100% of the basis for salary compensation in case of temporary absence due to confirmed infectious disease COVID-19. All employees of the Bank have the right to do so, regardless of the manner in which they became infected with COVID-19, provided that employees are vaccinated before temporary absence due to confirmed infectious disease COVID-19, as well as employees who cannot be vaccinated for health reasons;
- support was provided to workers who expressed interest in vaccination;
- Workers suffering from COVID used the right to sick leave.

10.4. *Respect for human rights*

The Group respects all human rights guaranteed by local regulations where the members of the Group operate. In its operations, the Group does not use or abuse children or minors.
Employed women in the Group are allowed to use the right to maternity leave in accordance with local regulations and the Collective Agreement.

The Parent Bank respects all human rights guaranteed by the Constitution of the Republic of Serbia. In its operations, the Bank does not use or abuse children or minors. Employed women in the Bank are allowed to use the right to maternity leave, childcare leave and special childcare leave, in accordance with the Labor Law and the Collective Agreement.

Komercijalna banka respects the protection of personal data prescribed by the Law on Personal Data Protection. The Bank also adopted an internal act, the Rulebook on Personal Data Protection (Pr-03-02-BK).

The Bank respects the privacy of employees in accordance with the regulations on personal data protection.
The Bank is making efforts to provide employees with safety at work, in which direction a number of acts and procedures have been adopted.

In accordance with the provisions of the Collective Agreement, the Bank collectively insures all employees in the event of serious illness and surgical interventions and in the event of death due to accident and disability (24/7/365).

The employee is obliged to comply with the regulations on safety and protection of life and health at work, and non-compliance with these regulations and failure to inform the Bank of any potential danger that could affect the safety and health at work of employees or other employees is a violation of work discipline pursuant to the provisions of the Collective Agreement of Komercijalna banka ad Beograd.

The Bank has an Occupational Safety and Health Committee, which has competencies regulated by law and the Collective Agreement of Komercijalna banka ad Beograd.

10.5. *Fight against corruption and bribery issues*

The document "Policy for the Management of Conflicts of Interest and Prevention of Corruption" of Komercijalna Banka AD Beograd - NLB Group (hereinafter: the Policy) regulating the issue of the fight against corruption and bribery is in force at the Parent Bank. [26]

In applying this Policy, the Parent Bank adheres to:

- Applicable legal regulations;
- Code of Corporate Governance of the Serbian Chamber of Commerce,
- Business rules of the Belgrade Stock Exchange a.d. and
- The best practice of NLB Group.

Pursuant to the above mentioned Policy:

- conflict of interest means a conflict between the private interests of an individual and persons related to him (including members of their immediate family) and the interests of NLB d.d. or a member of the NLB Group, which an individual is obliged to protect, and which could have negative consequences on conducting business activities, making business decisions, performing work tasks and fulfilling obligations
- corruption means any abuse of position for private purposes. This includes obtaining financial and non-financial benefits for oneself or others. Examples of corruption are blackmail, bribery, fraud, nepotism, payment of benefits.
- Bribery means seeking or accepting, for oneself or for someone else, an illegal reward, gift or any other benefit or promise or offer of such benefit that would, in order to acquire or retain a transaction or other illegal benefit, disregard the interests of NLB Group members or other private individuals or harmed them. Bribery also means promising, offering or giving an illicit reward, gift or any other benefit to a person or someone else in order to give oneself or someone else an unjustified advantage in obtaining or retaining a transaction or other illegal benefit, also in exchange for obtaining or retaining a transaction or other benefits.

Prohibited actions related to corruption

In the NLB Group, any form of corruption is strictly prohibited. The NLB Group is prohibited from using any resources of any member of the NLB Group for any illegal purposes or purposes that are not in accordance with the anti-corruption rules set out in this Policy. Employees are obliged to reject any corrupt behavior and immediately report it to the organizational unit responsible for compliance.

In order to combat corruption, Komercijalna banka ad Beograd has developed procedures in order to combat:

- Illegal acceptance and unauthorized giving of gifts (bribery) - It is strictly forbidden to illegally give or accept gifts to anyone /from anyone, whether a business partner, supplier or public servant, to get a new job, keep an existing job or give preference to someone's interests in the wrong way;
- payment of benefits - this activity is prohibited so that the payment of benefits may not be made or received;
- nepotism - prohibited activity;
- lobbying and political contributions - members of the NLB Group will not pay any political contributions - neither direct nor indirect;
- sponsorships and donations - approval of donations and sponsorships in a non-transparent manner for profit organizations must be avoided; associations or organizations or persons associated with the NLB Group, or without respecting the rules established for the approval of donations and sponsorships;
- standards for suppliers and / or external service providers - suppliers and external service providers must be informed in advance of compliance and integrity requirements, obtain links to access the published NLB Group Code of Conduct (for public use) while contracts with the

26 Incitement is also considered corruption - if someone promises or even rewards another person in exchange for an action that has signs of corruption. In that case, both the person who was given the incentive and the person who essentially performs such an act are involved in the corrupt act.

Bank must contain standards in the field of compliance and prevention of corruption, as well as appropriate legal remedies (termination of contracts due to non-compliance with NLB Group standards);

- use of intermediaries - intermediaries, agents, advisors, real estate agents, representatives and other persons acting in the name and on behalf of the Bank or other members of the NLB Group, must be notified in advance of compliance and integrity requirements, obtain links to access the published NLB Group Code of Conduct (for public use) while contracts with the Bank must contain standards in the field of compliance and prevention of corruption, as well as appropriate remedies (termination of contracts due to non-compliance with NLB Group standards;
- Employment or commissioning of services from former civil servants, state employees or their relatives - civil servants and officials, members of their immediate family and other persons closely related to them (e.g. friends, other close acquaintances) enjoy the same treatment as other (potential) employees or business partners, based on their experience, skills and competencies, and can never be given priority because of these connections in recruitment procedures or service ordering or goods purchasing processes;
- contacts with senior government officials - members of the governing bodies of NLB Group members who have contacts with the government or state representatives or representatives of diplomatic missions or international organizations must, in addition to respecting the rules of accepting and giving gifts, and in order to protect the integrity and reputation of NLB Group must ensure to achieve the basic goal of this Policy in these contacts, i.e., to ensure business transparency, and
- contacts with other persons - employees of the NLB Group who have been approached by a representative or agent of a supplier, external service provider, client or third party in an attempt to improperly influence the business decisions of an NLB Group member in an inappropriate or illegal manner, are obliged to immediately refer that to the organizational unit responsible for the compliance of the bank's operations.

Other illegal or prohibited actions in the performance of business activities of the Bank and the Group are described in the mentioned document, and/or the Policy.

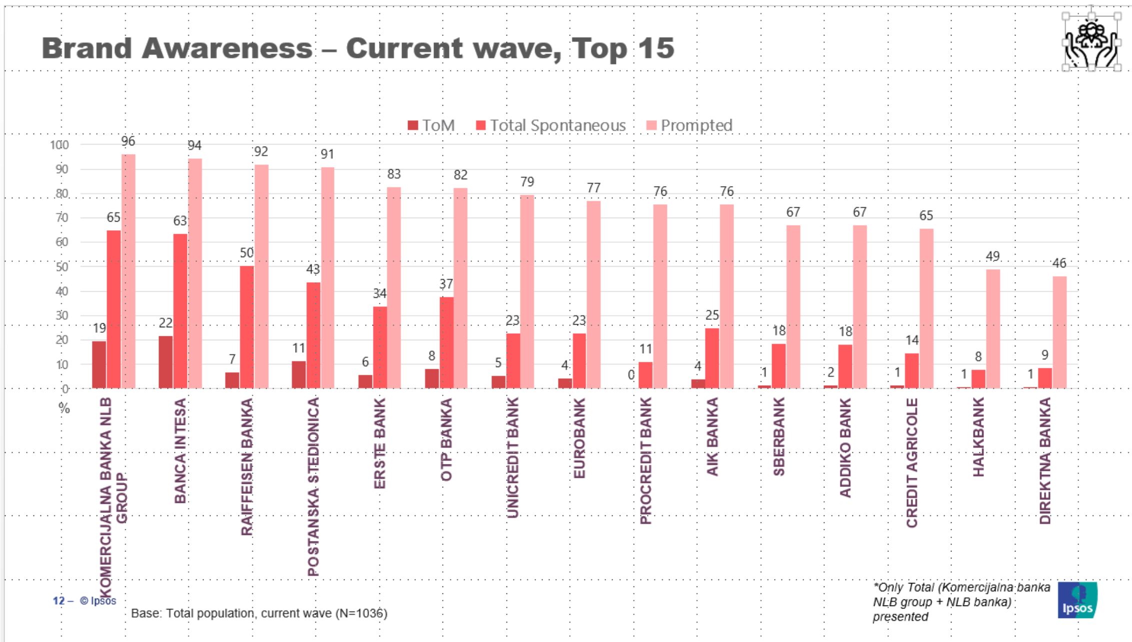
10.6. Research and Development Activities

During 2021 Komercijalna banka, the Parent Bank monitored, in detail and up-to-date the trends in the financial market and successfully adjusted to the conditions and changes in the market, in order to maintain its enviable position, which is attested by the surveys that have been conducted.

The Bank's market position as a brand, the position of its products and services have been surveyed also during 2021, through the banking Omnibus, conducted by a market research agency "IPSOS", specialized for this type of surveys. The surveys show that, over a long period, the Bank has been holding one of the leading positions in the eyes of the public, measured by the criteria of brand recognition, quality and satisfaction with products and services the clients use. All the survey results are posted on the Bank's internal portal and other targeted groups are also informed about them for the purpose of additionally strengthening the brand of Komercijalna banka.

Report of the last banking Omnibus (from November 2021) shows that, according to the pollsters' opinion, Komercijalna banka ranks at the top in terms of brand recognition among the 15 leading banks in Serbia.

Bank brand recognition in Serbia (banking Omnibus, November 2021)



Results of the surveys and analyses contribute to the improvement of the efficiency of the process of making business decisions, particularly important in the segment of developing new and improving and modifying the existing products and services.

As part of the continuous process of monitoring market signals and the needs of the existing users and potential customers, the responsible divisions of the Group members have offered the users, over the past period, new and/or improved products and services of the Bank.

GROUP'S CORPORATE SOCIAL RESPONSIBILITY

KOMERCIJALNA BANKA A.D. BEOGRAD

Activities from the area of Corporate Social Responsibility made a particular contribution to the preservation and increase in the value of corporate image, which the Bank carefully selected and supported and where it actively cooperated with its partners. A successful campaign of securing equipment for general and maternity hospitals "Together for Babies" continued.
It was exactly the charity campaign of March 4th for the maternity hospital Narodni Front that was the first public appearance of the CE Vlastimir Vuković. On that occasion, Mr. Vuković gave this reputable and well-known institution a present, on behalf of the bank, in the form of an ultrasound machine.

Regular activities in the area of corporate social responsibility were hindered due to the situation in the country caused by the corona virus pandemic. This year again the Bank rose up to this challenge with the procedures that enabled operation in this situation, as well as by directing the funds to extraordinary procurement and donations of medical supplies and equipment for hospitals.
All the activities of Komercijalna banka ad Beograd in this area are accompanied by appropriate PR support, without which modern market operations are unimaginable and which proved to be necessary in extraordinary circumstance we found ourselves in 2021. The Bank has communicated with its stakeholders in a quality, clear and targeted manner in order to timely inform them of all the changes that accompanied the operation, as well as of the safety procedures it had implemented. In this manner mutual understanding was achieved and confidence in the Bank was maintained, which contributes to the improvement of the acquired image and reputation.

11. PLAN FOR THE GROUP'S FUTURE DEVELOPMENT

Business strategies and plans for the upcoming period are defined and adopted on the level of individual Group members [27].

In accordance with the policy of NLB Group, in the period July – October 2021, Komercijalna banka a.d. Beograd and NLB banka a.d. Beograd prepared for the bank that is created with the integration of the two banks, the Budget for 2022 and financial projections for the period 2023-2026.

A starting assumption for the preparation of the plan is to take into consideration the synergy effects, particularly from April 2022, which are expected in the integration process. A successful completion of the integration process is the first major challenge in the upcoming period.

The bank's key goals it wishes to achieve in the upcoming period are: [28]

- significant improvement of all key performance indicators, so that these indicators are above the expected ones on the sector level, with the planned profit in accordance with the expectations of NLB Group;
- change in the structure of assets, with high growth rates of lending activity in all segments and, consequently, with a significant growth in market shares;
- continued growth, although at lower rates, of the deposit potential, with the aim of maintaining market share, with decrease in liquid assets, including investment into securities, which will be used, to a significant degree, for the growth of the loan portfolio. These changes will affect the LTD ratio which is expected to rise significantly and reach the average level for the banking sector;
- maximum use of employed capital, dividend payout in all years, while maintaining the capital adequacy ratio at the prescribed level;
- improvement of products and services in accordance with market trends, including continuous growth of market share in digital sales channels;
- reorganization and rebranding of the branch network in order to respond to customer needs and desires;
- optimizing the number of employees in accordance with the best business practice.

The expected average annual growth during the planned period is 5% so the projected total assets at the end of 2026 will amount to over RSD 746 billion. In the initial years of the planned period, it is expected that the bank will gradually use excess liquidity to finance the growth of the loan portfolio so the growth rate of total assets will be lower than the average growth rate for the whole period.

The Bank plans a strong growth of the loan portfolio in all segments, in the period from 2021 and 2026, with double-digit average annual growth. The projected growth is significantly faster than the expected market growth so, by 2026, the Bank will improve its market position in all important segments. The growth of loans will be partly financed from excess liquidity and partly from the expected growth of deposits from the non-banking sector.

On the liabilities side, an average annual growth rate of deposits from the non-banking sector follows the growth rate of total assets. Due to excess liquidity and low LTD ratio, the Bank does not expect to have the funding needs on the interbank market, while it will use, as needed, the funds in the form of credit lines from the parent bank NLB d.d. Ljubljana.

Despite the pressure on interest rates, the planned strong growth of the loan portfolio is expected to result in a significant growth of interest income in the planned period and the Bank plans to actively manage also the tariff of fees with the aim of achieving the appropriate fee income. In that part the focus will be on payment service related services as well as on documentary business.

At the General Meeting of Shareholders of Komercijalna banka ad Beograd, the Parent Bank, held on 26.10.2021, the Decision was passed on granting approval for the sale of **Komercijalna banka a.d. Banja**

27Within this item of the reprot, the parts take from individual strategies and buisness plans of Group members are shown.

28Strategy and Business Plan of Komercijalmna banka ad Beograd for the period 2022 - 2026

Luka. The process of selling **Komercijalna banka a.d. Banja Luka,** and taking it out of the Group Komercijalna banka ad Beograd, was completed in December 2021.

The business targets of the UCITS Fund Management Company **KOMBANK INVEST a.d. Beograd** for the figure planned period are:

- increase in balance-sheet assets;
- keeping the company's liabilities at the same level;
- increase in revenue from managing funds, stable financial revenue with the control of the level of operating expenses, which will result in significant increase in the annual net profit;
- respectable increase in business results and an increase in the volume of operation by using the benefits offered by the law – direct credits in EUR, free trading in investment units and a first-ranking pledge of investment units.

12. *SIGNIFICANT EVENTS FROM THE END OF THE BUSINESS YEAR*

From December 31st 2021 until the end of February 2022 two extraordinary General Meetings of the Bank's Shareholders were scheduled.
At the General |Meeting of the Bank's Shareholders scheduled and held on February 2nd 2022 the following decisions were adopted:
- Decision on amendment and supplement to the Memorandum of Association,
- Decision on adopting the Articles of Association of NLB Komercijalna banka AD Beograd,
-Decision on supplementing the Decision on accepting the merger of NLB Banka AD Beograd with Komercijalna banka AD Beograd.

A new extraordinary General Meeting of the Banks' Shareholders is scheduled and held on February 25th 2022 on which the following decision was adopted:
- Decision on supplementing the Decision on acquisition of the Banks' treasury shares from the dissenting shareholders.

Other significant events after the end of the business year in KB Group and the Group members are disclosed in the Notes to Consolidated Financial Statements – Events after the Balance-Sheet Date.

Signed on behalf of the Group Komercijalna banka a. d. Beograd

Dejan Janjatović	Vlastimir Vuković
Deputy Chief Executive Officer	Chief Executive Officer

KOMERCIJALNA BANKA
NLB Group

Komercijalna banka AD Beograd
Svetog Save 14, 11000 Beograd
Tel: +381 11 30 80 100
Fax: +381 11 34 41 335
E-mail: posta@kombank.com
www.kombank.com

Pursuant to Article 50 of the Law on Capital Market (RS Official Gazette No. 31/2011, 112/2015, 108/2016 and 9/2020) Komercijalna banka AD Beograd issues the following

STATEMENT

We hereby state that, according to our best knowledge, the annual consolidated financial statements as at 31.12.2021 have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company, including its companies included in the consolidated reports, based on the adopted audited separate financial statements of the Group members for the year 2021.

KOMERCIJALNA BANKA AD BEOGRAD

БЕОГРАД

Dejan Janjatović	Vlastimir Vuković
Deputy President of the Executive Board	President of the Executive Board

GENERAL MEETING OF THE BANK'S SHAREHOLDERS
No. 196/2
Belgrade, 18.04.2022

Pursuant to Article 14 of the Articles of Association of Komercijalna banka AD Beograd, the General Meeting of Shareholders of Komercijalna banka AD Beograd, on 18.04.2022, passed the following

DECISION
on adopting the Annual Report for the Group and Consolidated Financial Statements for the Group Komercijalna banka AD Beograd for 2021, with the external auditor's opinion

Article 1

The Annual Report for the Group Komercijalna banka AD Beograd for 2021, with the external auditor's opinion (PKF d.o.o. Beograd) is hereby adopted in the wording that forms an integral part of this decision.

Article 2

Consolidated Financial Statements for the Group Komercijalna banka AD Beograd for 2021, with the external auditor's opinion (PKF d.o.o. Beograd) are hereby adopted:

1. Balance-sheet – consolidated as of 31.12.2021;
2. Profit&Loss – consolidated in the period from 1.01. to 31.12.2021;
3. Report on Other Comprehensive Income – consolidated in the period from 01.01. to 31.12.2021;
4. Statement of Changes in Equity – consolidated in the period from 01.01. to 31.12.2021;
5. Cash Flow Statement – consolidated in the period from 01.01. to 31.12.2021;
6. Notes to Consolidated Financial Statements for 2021

in the wording that forms an integral part of this decision.

Article 3

This decision becomes effective on the day it is passed.

ACTING CHAIRPERSON OF THE GENERAL
MEETING OF THE BANK'S SHAREHOLDER

Igor Stebernak