2020 SEMI-ANNUAL CONSOLIDATED REPORT OF KOMERCIJALNA BANKA GROUP

Belgrade, August 2020

CONTENTS

REPORT ON THE BUSINESS RESULTS OF THE GROUP KOMERCIJALNA BANKA AD BEOGRAD FOR THE PERIOD FROM 01.01. TO 30.06.2020.

Belgrade, August, 2020

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Consolidated financial statements of the banking Group are expressed in RSD thousand. The dinar is an official reporting currency in the Republic of Serbia and the functional currency of Komercijalna banka ad Beograd (hereinafter: the Parent Bank).

Functional currencies, EUR from the financial reports of Komercijalna banka a.d. Podgorica and BAM from the financial reports of Komercijalna banka a.d. Baja Luka have been converted into the reporting currency of the parent bank – the dinar (RSD) on the basis of officially published exchange rates in the Republic of Serbia.

Consolidate P&L and consolidated cash flow balance for the period have been prepared by applying the average official exchange rate in the Republic of Serbia for the first six months of 2020 of 117.5746 for a EUR and 60.1150 for a BAM, while other consolidated financial statements (balance-sheet, report on the changes in equity and the statement of other comprehensive income) are prepared by applying the closing exchange rate on the balance-sheet date in the amount of 117.5760 to the EUR and 60.1157 to the BAM.

Business changes that have occurred in a foreign currency are converted in dinars at the mid-market exchange rate set in the interbank FX market, valid on the date of the business change.

Assets and liabilities expressed in a foreign currency on the day of the consolidated balance-sheet have been converted into dinars, at the mid-market exchange rate set in the interbank FX market valid on that day.

1. GROUP'S KEY PERFORMANCE INDICATORS

Report for the period from 01.01. to 30.06.2020 is a valid overview of the development and the business results of the GROUP KOMERCIJALNA BANKA AD Beograd realized in the first six months 2020.

ITEM	30.06.2020.	30.06.2019.	INDICES 2020/2019	2018.	2017.	2016.
(In RSD thousand and in %)						
Profit/loss before tax	3.007.028	3.625.744	82,9	8.381.166	7.316.383	(6.533.686)
Profit/loss after tax	2.859.349	3.625.890	78,9	8.380.334	8.267.996	(6.241.130)
Net interest income	6.560.733	6.888.643	95,2	13.946.644	13.517.238	14.456.333
Net fee income	2.559.330	2.778.591	92,1	5.540.447	5.413.601	5.093.523
PROFITABILITY RATIOS[1]						
ROA	1,24%	1,62%	76,3	1,99%	1,77%	(1,55%)
ROE (on total equity)	7,69%	10,09%	76,3	12,09%	11,58%	(10,54%)
Net interest margin on total assets	2,70%	3,08%	87,6	3,31%	3,26%	3,42%
Cost / income ratio	72,21%	60,51%	119,3	60,41%	64,02%	63,24%
Operating expenses	6.585.915	5.849.588	112,6	11.772.192	12.119.512	12.363.223
Net income/expenses of impairment of financial assets that are not measured at fair value through P&L	(104.626)	819.507	-	51.681	36.342	(13.079.497)
ITEM	**30.06.2020.**	**31.12.2019.**	**INDICES 2020/2019**	**2018.**	**2017.**	**2016.**
Consolidated balance-sheet assets	497.630.977	475.755.894	104,6	441.586.959	400.108.316	428.827.608
Off-balance-sheet operations	536.258.575	503.834.838	106,4	496.783.044	507.345.996	551.970.548
Loans and receivables from banks and other financial organizations	18.761.791	26.990.004	69,5	21.037.537	30.233.555	43.216.681
Loans and receivables from customers	218.236.530	208.234.158	104,8	191.448.642	174.242.139	166.401.008
Deposits and other liabilities to banks, other financial organizations and the central bank	8.237.141	8.318.606	99,0	8.228.284	6.137.776	9.822.519
Deposits and other liabilities to other customers	391.806.791	370.987.710	105,6	350.668.156	317.577.748	345.135.959
CAPITAL	76.987.633	79.371.576	97,0	71.522.051	67.100.116	59.292.420
Capital adequacy	27,87%	27,05%	103,0	25,22%	24,56%	26,20%
Number of employees	3.022	3.056	98,9	3.076	3.106	3.152
Assets per employee *(in RSD thousand)*	164.669	155.679	105,8	143.559	128.818	136.049
Assets per employee *(in RSD thousand)*	1.401	1.324	105,8	1.212	1.087	1.102

1 Profitability parameters are shown per year.

2. GROUP'S BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE

Banking Group consists of three banks, namely Komercijalna banka a.d. Beograd (parent bank), Komercijalna banka a.d. Banja Luka, Komercijalna banka a.d. Podgorica (subsidiary) and the investment fund management company KomBank INVEST a.d. Beograd.

The parent bank is registered in the Republic of Serbia for credit, deposit and guarantee operations, as well as for national and international payment transactions. As part of its registered business activities, the Parent Bank performs the following activities:

- deposit activities (receiving and making deposits),
- credit operations (lending and borrowing);
- FX, currency and exchange operations;
- payment transactions;
- payment card issuance;
- securities operations (issuing securities, custody operations, etc.);
- broker-dealer operations;
- issuing guarantees, bill guarantees and other forms of surety (guarantee operations);
- purchase, sale and collection of receivables (factoring, forfeiting, etc.);
- insurance agency operations, with a prior approval from the National Bank of Serbia;
- activities it is authorized for by the law.

Parent Bank has been authorized to perform international payment transactions since 2003, for broker-dealer activities since 2005, for custody bank operations since 2006 and for insurance agency operations since 2011.

Komercijalna banka a.d. Banja Luka is registered in Bosnia and Herzegovina for national and international payment transactions and credit and depositary activities, in accordance with the regulations of the Republic of Srpska. Komercijalna banka a.d. Banja Luka performs the following activities:

- receipt and use of deposits and other refundable assets;
- lending;
- issuance of guarantees and all forms of surety;
- national and international payment transactions and money transfer, in accordance with the special regulations;
- purchase and sale of foreign currency and precious metals;
- issuing and managing payment instruments (including payment cards, traveler's and bank checks);
- financial leasing;
- purchase and sale of securities;
- activities it is authorized for by the law.

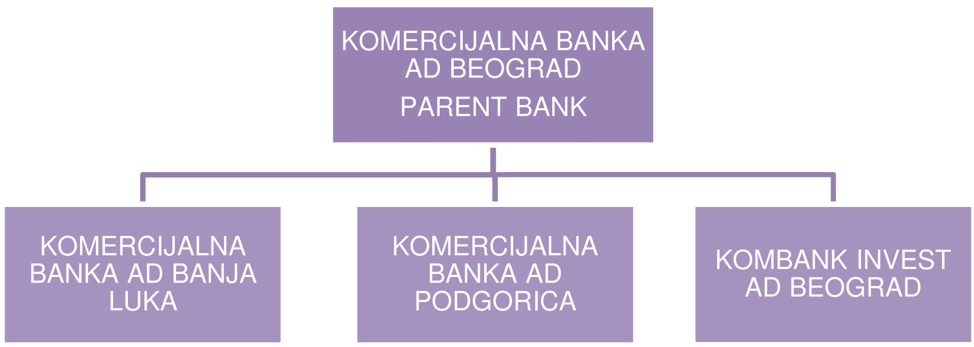
Komercijalna banka a.d. Podgorica is registered in Montenegro for performing the activity of receiving and making deposits and other instruments from private individuals and legal entities and granting loans and other facilities from such instruments, in the whole or partially, for its own account. Komercijalna banka a.d. Podgorica performs the following activities:

- deposit activities (receiving and making deposits);
- loan activities (lending and borrowing);
- issues guarantees and assumes other liabilities;
- purchases and collects receivables;
- issues, processes and records payment instruments;
- international payment transactions;
- financial leasing;
- trades on and for its own behalf or for the behalf of the customers with foreign payment instruments;
- collects data, prepares analyses and provides information and advice about the creditworthiness of companies and entrepreneurs;
- depository operations;
- safekeeping of assets and securities;
- other ancillary operations from the Bank's business domain.

Investment fund management company (IFMC) KomBank INVEST a.d. Beograd is registered to perform the following activities:

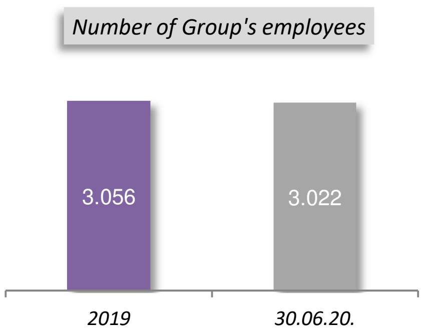
- organizing and managing public investment funds;
- establishing and managing private investment funds;
- managing private investment funds;
- other tasks in accordance with the law that regulates equity market, as well as activities of portfolio managers and an investment counselor.

Group's organizational structure



Group's human resources

As of 30.06.2020 the Group had a total of 3,022 employees, 34 fewer than at the start of the business year. There was a decrease in the parent bank of 34 employees and in KB Podgorica of 3 employees, while KB Banja Luka increased the number of employees by 3. KomBank Invest has kept the same number of employees.



Key data about the Group members

	KOMERCIJALNA BANKA AD BANJA LUKA	KOMERCIJALNA BANKA AD PODGORICA	KOMBANK INVEST AD BEOGRAD
ADDRESS	Jevrejska 69	Cetinjska 11 PC The Capital Plaza, Kula PC1 VI floor	Kralja Petra 19
COUNTRY	BiH, Republic of Srpska	Montenegro	Serbia
TELEPHONE	00387-51-244-700	00382-20-426-300	00381-11-330-8160

KOMERCIJALNA BANKA AD BANJA LUKA

99.998% owned by KB Beograd

Komercijalna banka a.d. Banja Luka was founded in September 2006 and on 15 September 2006 it was entered into the court register with the decision of the Basic Court in Banja Luka. As of 30.06.2020 the Bank had 162 employees and a branch network of 10 regional divisions and 9 agencies.

KOMERCIJALNA BANKA AD PODGORICA

100.0% owned by KB Beograd

Komercijalna banka a.d. Podgorica was founded in November 2002 as an affiliation of Komercijalna banka ad Beograd and was entered into the central register of the Commercial Court in Podgorica on 6 March 2003. As of 30.06.2020 the Bank had 145 employees and a branch network of 9 regional divisions and 1 branch.

KOMBANK INVEST AD BEOGRAD

100.0% owned by KB Beograd

Investment fund management company (IFMC) **KomBank INVEST a.d. Beograd** is a company entered into the register of economic entities of the Business Registers Agency on 5 February 2008. The company was founded as a private joint-stock company that operates in accordance with the Law on Investment Funds, the Rulebook on Investment Funds and the Rulebook on the Conditions for Performing the Activities of IFMCs.

The company manages three investment funds, namely:

1. KomBank IN FOND, open-end growth investment fund (equity fund),
2. KomBank NOVČANI FOND, open-end value investment fund (money market fund),
3. KomBank DEVIZNI FOND, open-end value investment fund (money market fund).

As of 30.06.2020 the Company had five employees.

Key data about the Parent Bank

Address /headquarters/ divisions	Svetog Save 14	Svetogorska 42-44	Politika Square 1
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
WEBSITE	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E - mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

KOMERCIJALNA BANKA AD BEOGRAD*
Republic of Serbia – 83.23%

* shareholders with more than 5% equity

KOMERCIJALNA BANKA
Meni najbliža

Komercijalna banka AD Beograd, the parent bank was founded on 1 December 1970 and was transformed into a joint-stock company on 6 May 1992. The Bank was registered at the Trade Court in Belgrade, on 10 July 1991 and was legally reregistered in the Business Registers Agency on 14 April 2006. The Bank received a banking license from the National Bank of Yugoslavia on 3 July 1991. On 30.06.2020 the parent bank had 2,710 employees and a branch network made up of 6 business centers, one regional division (Kosovska Mitrovica), 203 branches, 3 SME divisions (Belgrade, Central Serbia, Vojvodina), and a corporate-large client division.

Parent bank's branch network

	BUSINESS CENTERS	HEADQUARTERS
1.	BC Belgrade 1	Trg Politike 1, Belgrade
2.	BC Belgrade 2	Trg Politike 1, Belgrade
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
	BRANCHES	**HEADQUARTERS**
1.	Kosovska Mitrovica	Čika Jovina 11, Kosovska Mitrovica

	DIVISIONS	HEADQUARTERS
1.	Corporate – Large Clients Division	Svetogorska 42-44, Belgrade
2.	SME Banking Division - Vojvodina	Bulevar oslobođenja 88, Novi Sad
3.	SME Banking Division-Belgrade	Svetogorska 42-44, Belgrade
4.	SME Banking Division – Central Serbia	Svetogorska 42-44, Belgrade

As of 30.06.2020 the parent bank conducted its operation in the retail segment through a network of 203 branches grouped in six business centers and the Kosovska Mitrovica branch.

Activities with legal entities were carried out through three divisions for SMEs (Vojvodina, Belgrade and Central Serbia) and the Corporate – Large Clients Division.

3. GROUP'S FINANCIAL POSITION AND ITS BUSINESS RESULTS

3.1. Macroeconomic business environment

Macroeconomic ratios	*SERBIA*	*REPUBLIC OF SRPSKA*	*MONTENEGRO[2]*
Gross domestic product (GDP)	EUR 45,9 bn[3]	EUR 5,7 bn[4]	EUR 4,6 bn
Trends in GDP	5,0%[5]	+3,0%[6]	+3,1%
Consumer price index (VI 2020 / VI 2019)	+1,6%	-1,3%	-0,9%
Banking sector's assets	+5,5%[7]	+7,0%[8]	+4,1%
Share of the banking sector's assets in GDP	75,6%[9]	85,0%[9]	98,0%[10]
Industrial output	-1,8%[11]	-4,7%[12]	6,9%
Banking sector's NPL – bad loans	3,9%[13]	6,9%	5,1%[14]
Unemployment	9,7%[15]	11,7%[16]	17,4%

Note: Macroeconomic operating environment of Group members according to the data available from the competent institutions.

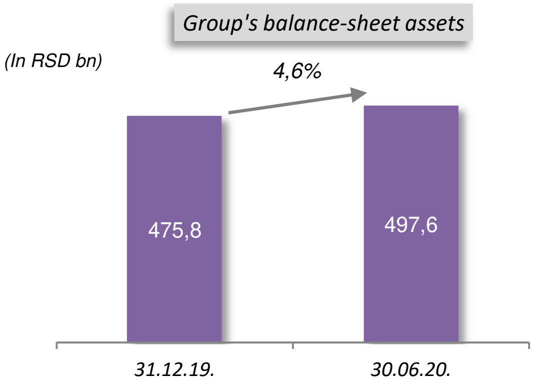
3.2. Group's operation

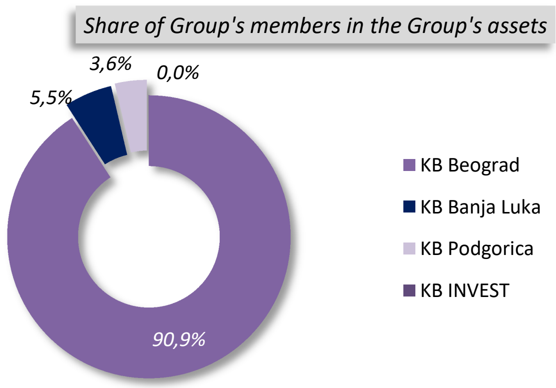
The first negative effects, due to the Corona virus pandemic (COVID-19), on the business environment in the world and Europe were felt at the end of 2019 and early 2020. In the Balkans region the adverse effects on business have been present since mid-March this year.

Despite operating in relatively adverse and unexpectedly changed macroeconomic environment, in the first six months this year the Group recorded a positive trend in the balance-sheet assets.

ITEM	30.06.2020.	2019.	2018.	2017.	2016.
(in RSD thousand)					
GROUP'S BALANCE-SHEET ASSETS	**497.630.977**	**475.755.894**	**441.586.959**	**400.108.316**	**428.827.608**
Komercijalna banka a.d. Beograd	452.238.329	428.857.730	398.447.676	366.074.702	397.222.810
Komercijalna banka a.d. Banja Luka	27.143.935	29.256.166	27.624.178	20.075.186	18.385.992
Komercijalna banka a.d. Podgorica	18.075.731	17.472.505	15.353.955	13.801.705	13.212.323
KomBank Invest a.d. Beograd	172.982	169.493	161.150	156.723	6.483

2 Data for Montenegro are according to the balance as of 30.04.2020, unless specified differently
3 NBS, key macroeconomic trends, July 2020, balance as of 31.12.2019
4 Data relates to 2019
5 NBS, key macroeconomic ratios, balance at the end of the first quarter 2020
6 National Statistics Office, data 2019/2018
7 Increase in balance-sheet assets of the banking sector of Serbia, 31.05.2020/31.12.2019
8 Data relates to the period 2019/2018
9 Data relates to 31.12.2019
10 Data relates to 30.04.2020
11 National Statistics Office, trends in industrial output, first half 2020 / first half 2019
12 Data relates to the period January – April 2020 / January – April 2019
13 NBS, Macroeconomic Trends in Serbia, July 2020, data relates to May 2020 (NPL/total loans)
14 Central Bank of Montenegro, financial stability indicators, May – June 2020
15 National Statistics Office, Labor Force Survey, 31.03.2020
16 Unemployment survey for 2019

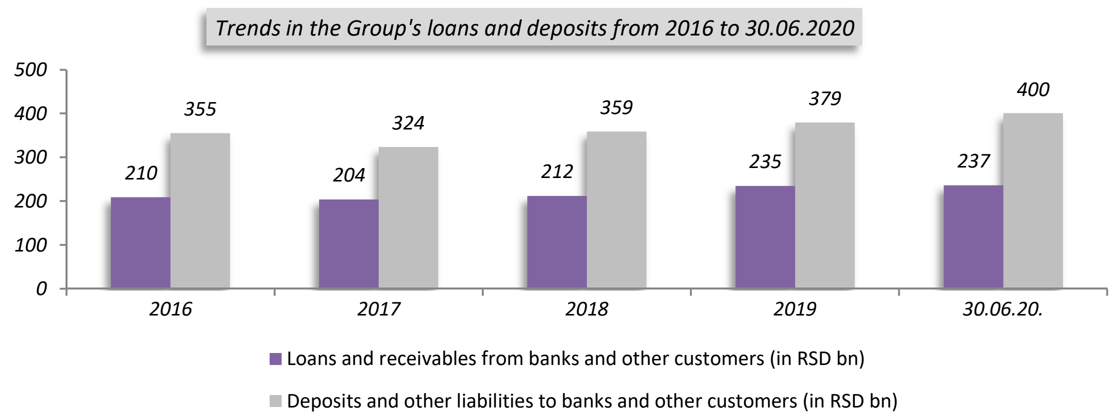




Group's balance-sheet assets, at the end of June 2020, was 497,631.0 million dinars and, compared to the start of the year it increased by 21,875.1 million dinars (4.6%). Share of the parent bank in consolidated assets is still dominant (Group members account for 9.1% of the total consolidated assets).

Lending and liabilities of banks and customers as of 30.06.2020 per Group member

ITEM	30.06.2020.	2019.	2018.	2017.	2016.
(in RSD thousand)					
LOANS AND RECEIVABLES FROM BANKS AND CUSTOMERS	**236.998.321**	**235.224.162**	**212.486.179**	**204.475.694**	**209.617.689**
Percentage of growth	0,8%	10,7%	3,9%	(2,5%)	6,3%
Komercijalna banka a.d. Beograd	206.112.136	205.497.840	185.917.193	182.944.400	190.830.293
Komercijalna banka a.d. Banja Luka	18.748.629	18.734.989	16.811.744	13.647.511	12.435.930
Komercijalna banka a.d. Podgorica	12.121.457	10.974.943	9.740.866	7.883.783	6.351.466
KomBank INVEST a.d. Beograd	16.099	16.390	16.376	-	-
DEPOSITS AND LIABILITIES TO BANKS AND CUSTOMERS	**400.043.932**	**379.306.316**	**358.896.440**	**323.715.524**	**354.958.478**
Percentage of growth	5,5%	5,7%	10,9%	(8,8%)	5,0%
Komercijalna banka a.d. Beograd	363.418.449	339.234.701	321.271.358	295.755.134	329.732.740
Komercijalna banka a.d. Banja Luka	21.566.908	24.601.533	23.547.061	15.803.267	14.242.849
Komercijalna banka a.d.Podgorica	15.058.575	15.470.082	14.078.021	12.157.123	10.982.889
KomBank INVEST a.d. Beograd	-	-	-	-	-



Parent's bank share in loans and receivables from banks and other customers on the level of the whole group, as of 30.06.2020, amounts to 87.0% (31.12.2019 it was 87.4%), share of KB Banja Luka is 7.9% (31.12.2019 it was 8.0%) and KB Podgorica participates with 5.1% (31.12.2019 it participated with 4.7%).

Parent bank's share is dominant in deposits and other liabilities to banks and other customers of the Group with 90.8% (31.12.2019 it was 89.4%), KB Banja Luka's share is 5.4% (on 31.12.2019 its share was 6.5%) while KB Podgorica's share was 3.8% (on 31.12.2019 it was 4.1%).

3.3. Consolidated balance-sheet

Group's consolidated assets as of 30.06.2020

No.	ITEM	30.06.2020.	31.12.2019.	INDICES	SHARE 30.06.2020.
1	2	3	4	5=(3:4)*100	6
	ASSETS (in RSD thousand)				
1.	Cash and cash equivalents with the central bank	83.034.441	76.654.402	108,3	16,7%
2.	Pledged financial assets	-	-	-	-
3.	Receivables from derivatives	3.490	-	-	-
4.	Securities	160.565.287	144.479.431	111,1	32,3%
5.	Loans and receivables from banks and other financial organizations	18.761.791	26.990.004	69,5	3,8%
6.	Loans and receivables from customers	218.236.530	208.234.158	104,8	43,9%
7.	Changes in fair value of hedged items	-	-	-	-
8.	Receivables under hedging derivatives	-	-	-	-
9.	Investments in affiliated companies and joint ventures	-	-	-	-
10.	Investments into subsidiaries	-	-	-	-
11.	Intangible assets	640.149	754.500	84,8	0,1%
12.	Property, plant and equipment	6.975.681	7.254.391	96,2	1,4%
13.	Investment property	2.177.089	2.202.616	98,8	0,4%
14.	Current tax assets	3.682	6.786	54,3	-
15.	Deferred tax assets	1.041.767	1.076.255	96,8	0,2%
16.	Non-current assets held for sale and discontinued operations	442.313	500.740	88,3	0,1%
17.	Other assets	5.748.757	7.602.611	75,6	1,2%
	TOTAL ASSETS (from 1 to 17)	**497.630.977**	**475.755.894**	**104,6**	**100,0%**

Of the individual balance-sheet assets, the greatest share in the Group's balance-sheet assets came from loans and receivables from customers (43.9%) which have a rising trend in 2020 (they increased 4.8% compared to the start of the year i.e. by 10,002.4 million dinars).

Securities are a significant item of consolidated assets, with a share of 32.3% and have generated an increase during 2020 (compared to the start of the year they increased 11.1% i.e. by 16,085.9 million dinars).

Cash and assets with the central bank participated in total consolidated assets with 16.7% and, compared to the start of the year, increased by 8.3% or 6,380.0 million dinars. Balance-sheet item loans and receivables from banks and other financial organizations account for 3.8% of consolidated balance-sheet assets and, compared to the start of the year, recorded a decrease of 8,228.2 million dinars or 30.5% (mostly the result of a decrease in Komercijalna banka a.d. Beograd).

Group's consolidated liabilities as of 30.06.2020

No.	ITEM	30.06.2020.	31.12.2019.	INDICES	SHARE 30.06.2020.
1	2	3	4	5=(3:4)*100	6
	LIABILITIES *(in thousand RSD)*				
1.	Liabilities under derivatives	-	-	-	-
2.	Deposits and other liabilities to banks, other financial organizations and central bank	8.237.141	8.318.606	99,0	1,7%
3.	Deposits and other financial liabilities to clients	391.806.791	370.987.710	105,6	78,7%
4.	Liabilities under hedging derivatives	-	-	-	-
5.	Change in fair value of hedged items	-	-	-	-
6.	Liabilities under securities	-	-	-	-
7.	Subordinated liabilities	-	-	-	-
8.	Provisions	1.995.559	2.483.410	80,4	0,4%
9.	Liabilities under available-for-sale assets and assets from discontinued operations	-	-	-	-
10.	Current tax liabilities	69	2.673	2,6	-
11.	Deferred tax liabilities	20.928	32.349	64,7	-
12.	Other liabilities	18.582.856	14.559.570	127,6	3,7%
13.	**TOTAL LIABILITIES (from 1 to 12)**	**420.643.344**	**396.384.318**	**106,1**	**84,5%**
	CAPITAL				
14.	Share capital	40.034.550	40.034.550	100,0	8,0%
15.	Profit	4.645.243	9.981.896	46,5	0,9%
16.	Loss	1.261.335	1.370.332	92,0	0,3%
17.	Reserves	33.569.106	30.725.392	109,3	6,7%
18.	Unrealized losses	-	-	-	-
19.	Non-controlling participation	69	70	98,6	-
20.	**TOTAL CAPITAL (from 14 to 19)**	**76.987.633**	**79.371.576**	**97,0**	**15,5%**
21.	**TOTAL LIABILITIES (13.+20.)**	**497.630.977**	**475.755.894**	**104,6**	**100,0%**

On the side of consolidated liabilities, deposits and other liabilities to other customers are dominant with a share of 78.7%. The item deposits and other liabilities to other customers increased compared to the start of the year by 20,819.1 million dinars or by 5.6%.

In consolidated liabilities, total capital accounted for 15.5% (share of this item as of 31.12.2019 was 16.7%). Compared to the start of the year, the Group's total accounting capital decreased by 2,383.9 million dinars, primarily as the result of a change in the accounting capital of Komercijalna banka a.d. Beograd due to booking obligations arising from the Decision on distribution of profit from 2019 and retained earnings from previous years. With this decision, among other things, the profit from 2019 and previous years was distributed into dividends to the holders of ordinary and preferred shares in the amount of 4,477.9 million dinars.

Consolidated balance-sheet as of 30.06.2020 – members of the banking Group

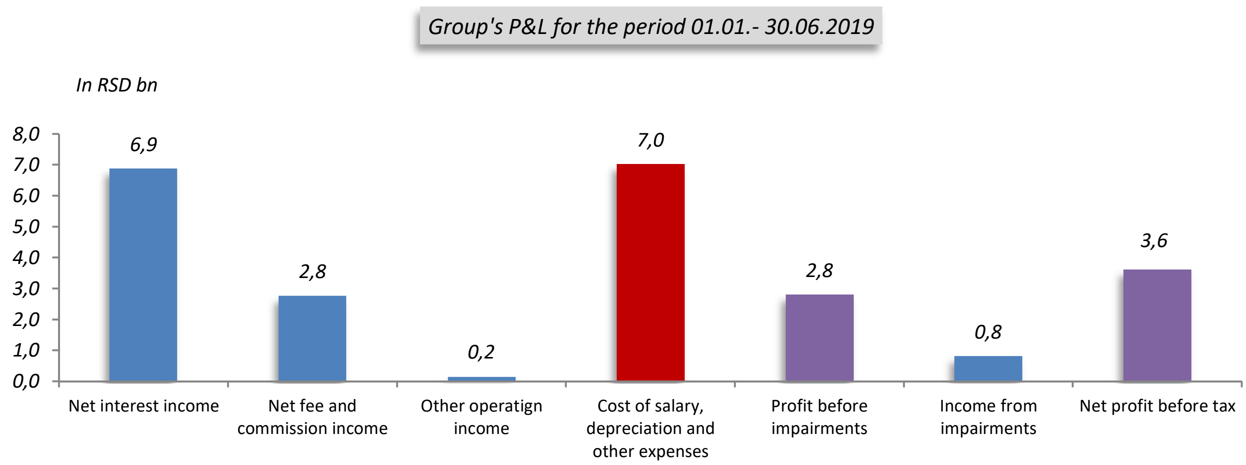
No.	ITEM	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	ASSETS/item *(in 000 RSD)*					
1.	Cash and cash equivalents with the central bank	76.487.156	4.103.157	2.444.128	-	83.034.441
2.	Receivables from derivatives	3.490	-	-	-	3.490
3.	Securities	154.573.244	3.475.610	2.364.105	152.328	160.565.287
4.	Loans and receivables from banks and other financial organizations	17.214.528	1.176.943	354.221	16.099	18.761.791
5.	Loans and receivables from customers	188.897.608	17.571.686	11.767.236	-	218.236.530
6.	Intangible assets	568.956	43.566	27.627	-	640.149
7.	Property, plant and equipment	6.208.933	381.740	384.825	183	6.975.681
8.	Investment property	1.838.717	250.035	88.337	-	2.177.089
9.	Current tax assets	-	3.604	-	78	3.682
10.	Deferred tax assets	1.039.709	-	-	2.058	1.041.767
11.	Non-current assets held for sale and discontinued operations	138.017	103.440	200.856	-	442.313
12.	Other assets	5.267.971	34.154	444.396	2.236	5.748.757
13.	**TOTAL ASSETS (from 1 to 12)**	**452.238.329**	**27.143.935**	**18.075.731**	**172.982**	**497.630.977**
	LIABILITIES/item					
14.	Deposits and other liabilities to bank, other financial organizations and central bank	3.647.058	4.334.469	255.614	-	8.237.141
15.	Deposits and other financial liabilities to clients	359.771.391	17.232.439	14.802.961	-	391.806.791
16.	Provisioning	1.831.147	21.185	130.586	12.641	1.995.559
17.	Current tax liabilities	-	-	69	-	69
18.	Deferred tax liabilities	-	13.343	7.585	-	20.928
19.	Other liabilities	17.936.009	444.216	201.061	1.570	18.582.856
20.	**TOTAL LIABILITIES (from 14 to 19)**	**383.185.605**	**22.045.652**	**15.397.876**	**14.211**	**420.643.344**
21.	**Total capital**	**76.460.760**	**516.005**	**(7.785)**	**18.653**	**76.987.633**
22.	**TOTAL LIABILITIES (20+21)**	**459.646.365**	**22.561.657**	**15.390.091**	**32.864**	**497.630.977**

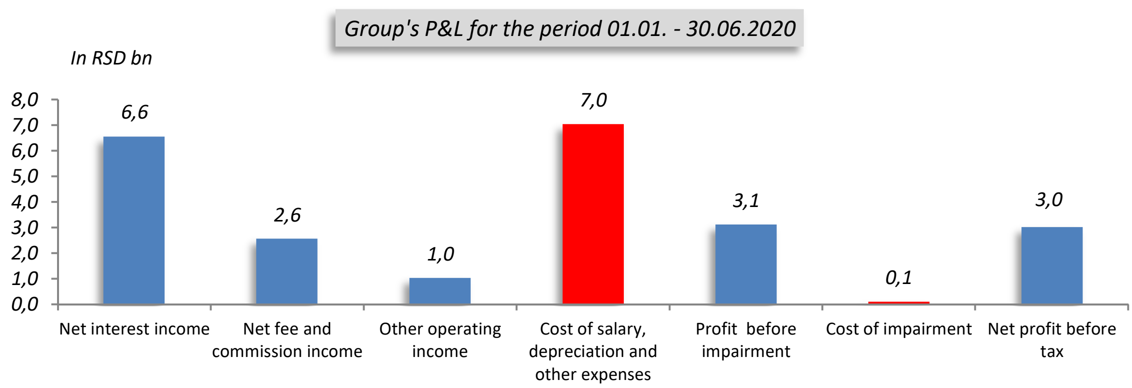
When observed per segment of consolidated balance-sheet, as of 30.06.2020, Komercijalna banka a.d. Podgorica has posted negative equity as the result of consolidation of items within equity due to elimination of internal relations, when the share capital is reduced to zero, primarily due to the fact that the parent bank is the sole owner of Komercijalna banka a.d. Podgorica and, at the same time, due to the negative result from the past period, which is higher than the amount of formed reserves and realized profit. Equity in standalone financial statements of Komercijalna banka a.d. Podgorica is within the statutory limits.

3.4. Consolidated P&L

Consolidated P&L for the period from 1 January – 30 June 2020

No.	ITEM	30.06.2020.	30.06.2019.	INDICES
1	2	3	4	5=(3:4)*100
	(in RSD thousand)			
1.1.	Interest income	7.286.389	7.570.539	96,2
1.2.	Interest expenses	(725.656)	(681.896)	106,4
1.	**Net interest income**	**6.560.733**	**6.888.643**	**95,2**
2.1.	Fee and commission income	3.464.697	3.634.300	95,3
2.2.	Fee and commission expenses	(905.367)	(855.709)	105,8
2.	**Net fee and commission income**	**2.559.330**	**2.778.591**	**92,1**
3.	Net profit/loss from the change in fair value of a financial instrument	36.489	38.839	93,9
4.	Net profit/loss from reclassification of financial instruments	-	-	-
5.	Net profit/loss from terminated recognition of a financial instrument measured at fair value	116.272	201.323	57,8
6.	Net profit/loss from risk hedging	-	-	-
7.	Net income/expenses from exchange rate differences and the effects of the agreed currency clause	817	11.917	6,9
8.	Net income/expenses from impairment of financial assets not measured at fair value through P&L	(104.626)	819.507	-
9.	Net profit/loss from termination of recognition of financial instruments measured at amortized value	-	(590.451)	-
10.	Net profit/loss from termination of recognition of investments into affiliations and joint ventures	-	-	-
11.	Other operating income	132.556	74.779	177,3
	TOTAL NET OPERATING INCOME	**9.301.571**	**10.223.148**	**91,0**
12.	Cost of salaries, salary allowance and other personnel expenses	(3.446.840)	(2.481.269)	138,9
13.	Cost of depreciation	(597.084)	(575.773)	103,7
14.	Other income	745.582	434.243	171,7
15.	Other expenses	(2.996.201)	(3.974.605)	75,4
	PROFIT/LOSS (-) BEFORE TAXES	**3.007.028**	**3.625.744**	**82,9**
16.	Profit tax	(3.723)	-	-
17.	Deferred tax gains	18.135	293	-
18.	Deferred tax loss	(162.091)	(147)	-
19.	**PROFIT/LOSS(-) AFTER TAX**	**2.859.349**	**3.625.890**	**78,9**
	Profit attributable to the parent entity	2.859.349	3.625.889	78,9
	Profit attributable to non-controlling owners		1	
	Loss attributable to the parent entity			
	Loss attributable to non-controlling owners			
	Earnings per share			
	Basic earnings per share (in dinars without paras)			
	Reduced (diluted) earnings per share (in dinars without paras)			





Adverse effects in operation, due to the corona virus pandemic (COVID–19) that have been present since the middle of March this year, have affected the level of net fee and interest income on Group level. As the result of this, during the first six months 2020, on Group level, profit before tax was realized in the amount of 3,007.0 million dinars, which is 618.7 million dinars or 17.1% less than year-over-year.

Group interest income, for the first six months this year, was realized in the amount of 7,286.4 million dinars and was 284.2 million dinars lower y-o-y, while interest expenses increased 43.8 million dinars. This resulted in a decrease in net interest income of the Group of 327.9 million dinars or 4.8%.

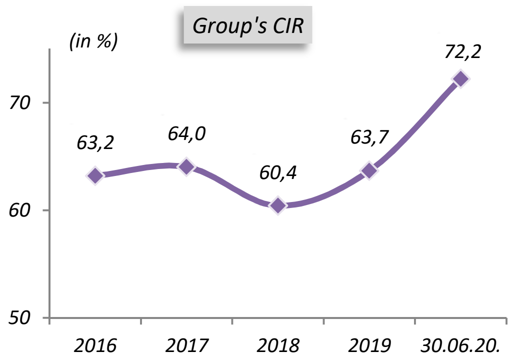
Consolidated fee and commission income, in the first half of 2020, was 3,464.7 million dinars and is 169.6 million lower y-o-y. Fee and commission expenses amounted to 905.4 million dinars and were 49.7 million dinars or 5.8% higher y-o-y. As the result of this, net fee and commission income amounted to 2,559.3 million dinars and was 219.3 million below the amount realized in the first six months of the previous year.

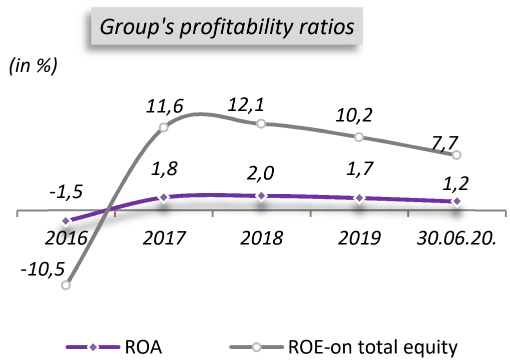
During 2020 net expense from impairment of financial assets that are not measured at fair value through P&L was generated in the amount of 104.6 million dinars, while in the same period last year net income was realized in the amount of 819.5 million dinars.

Unlike first six months of the previous year when the Bank recorded a net loss from the termination of recognizing financial instruments that are measured at amortized value in the amount of 590.5 million dinars, in the first half this year there were not such expenses.

Cost of salary, salary allowances, cost of depreciation and other expenses amounted to 7,040.1 million dinars in the period between 01.01. and 30.06.2020 and are 0.1% or 8,478.0 thousand dinars higher y-o-y.

The item Group’s other income recorded an increase of 311.3 million dinars, while other expenses decreased by 978.4 million dinars.





Consolidated P& L Account by Group Members for the period from 1.1. to 30.06.2020

No.	ITEM	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	(in RSD thousand)					
1.1.	Interest income	6.521.323	408.139	356.670	257	7.286.389
1.2.	Interest expenses	(573.520)	(93.309)	(58.827)	-	(725.656)
1.	**Net interest income**	**5.947.803**	**314.830**	**297.843**	**257**	**6.560.733**
2.1.	Fee and commission income	3.221.886	121.940	107.604	13.267	3.464.697
2.2.	Fee and commission expenses	(845.700)	(37.630)	(21.897)	(140)	(905.367)
2.	**Net fee and commission income**	**2.376.186**	**84.310**	**85.707**	**13.127**	**2.559.330**
3.	Net profit/loss from the change in fair value of financial instruments	35.085	-	-	1.404	36.489
4.	Net profit/loss from the reclassification of financial instruments	-	-	-	-	-
5.	Net profit/loss from the termination of recognition of financial instruments that are measured at fair value	108.307	6.793	1.168	4	116.272
6.	Net profit/loss from risk hedging	-	-	-	-	-
7.	Net income/expenses from exchange rate differences and the effects of agreed currency clause	(14.396)	(106)	15.319	-	817
8.	Net income/expenses from impairment of financial assets not measured at fair value through P&L	(81.834)	(11.184)	(11.608)	-	(104.626)
9.	Net profit/loss from the termination of recognition of financial instruments measured at amortized value	-	-	-	-	-
10.	Net profit/loss from the termination of recognition of investment into affiliations and joint ventures	-	-	-	-	-
11.	Other operating income	125.019	4.754	2.783	-	132.556
	TOTAL NET OPERATING INCOME	**8.496.170**	**399.397**	**391.212**	**14.792**	**9.301.571**
12.	Cost of salary, salary allowance and other personnel expenses	(3.110.456)	(181.988)	(146.668)	(7.728)	(3.446.840)
13.	Cost of depreciation	(492.842)	(57.807)	(46.425)	(10)	(597.084)
14.	Other income	734.678	5.232	5.667	5	745.582
15.	Other expenses	(2.714.297)	(135.340)	(143.127)	(3.437)	(2.996.201)
	PROFIT/LOSS(-) BEFORE TAX	**2.913.253**	**29.494**	**60.659**	**3.622**	**3.007.028**
16.	Profit tax	-	(3.654)	(69)	-	(3.723)
17.	Deferred tax gains	17.252	-	883	-	18.135
18.	Deferred tax loss	(158.749)	(278)	(3.064)	-	(162.091)
19.	**PROFIT/LOSS(-) AFTER TAX**	**2.771.756**	**25.562**	**58.409**	**3.622**	**2.859.349**
	Profit attributable to the parent entity					2.859.349
	Profit attributable to non-controlling interest owners					
	Loss attributable to the parent entity					
	Loss attributable to non-controlling owners					
	Earnings per share					
	Basic earnings per share (in dinars without paras)					
	Reduced (diluted) earnings per share (in dinars without paras)					

4. ENVIRONMENTAL PROTECTION INVESTMENTS

The banking Group respects the highest internationally adopted standards and values in the creation of financial products and services, develops and implements activities in the field of environmental protection and protection of human and labour rights. By adopting the Environmental and Social Risks Management Policy and Procedure at the banking Group level, the Group set out standards for identifying, monitoring and managing the environmental and social risks in the process of loan approval and monitoring. This document is adequately applied at the Group members' level through incorporation of bylaws at the level of each member while adhering to the local legislation and the internal bylaws of the Group members reconciled with the Bank's bylaws. Likewise, the Group develops activities in the area of protection of the environment and protection of the human and labour rights, by applying the best practice of sustainable financing. The internal bylaws also define the procedure for solving and providing answers to complaints based on direct or indirect impact of business activities on environment and social issues.

Environmental and social risk management approaches include two levels of management: at the level of individual placement and at the level of the entire portfolio. For each client's activity, the banking Group defines the level of risk, i.e. the category of risk, from the aspect of impact on the environmental and social surroundings.

Through the categorisation of loans, depending on environmental and social risk level, the Group assesses in which per cent the activities that may adversely affect the environment are financed. Also, the Group continually monitors its clients for any extraordinary events that could adversely impact the environment, health or safety or the community in general and regularly reports its findings to the management bodies of the banking Group members and the banking Group.

To protect the environment and minimise the likelihood of events that could adversely impact the environment, health or safety or the community in general, the Group applies the list of actions, projects and activities that are excluded from financing or operates in accordance with the defined limits of engagement with regard to specific activities, thereby meeting the standards of good international practice in this field. At the beginning of 2020, the parent Bank defined the possibility of financing highly controlled persons engaged in the activities of production and trade in weapons and military equipment, i.e. dual-use goods.

The members of the banking Group report on a monthly level to the Risk Management function of the parent Bank and other relevant business and operational functions on risk levels from the aspect of environmental and social impact. In case of exceeding the internal limits, the members of the Banking Group deliver the explanation with the proposal of measures and the activity plan and the Risk Management function reports to the parent Bank's Executive Board. Risk Management function reports at six-month level to the Executive Board and to the Board of Directors of the parent Bank on environmental and social risk management on consolidated basis, and the Republic of Serbia annually.

5. SIGNIFICANT EVENTS

After the end of 2019, and during the first two quarters of 2020, we would like to emphasize the following important business events:

- On 09.03.2020 a regular General Meeting of the Bank's Shareholders was held where the following decision was adopted:
  - Decision on adoption of the Strategy and Business Plan for Komercijalna banka AD Beograd for the period 2020-2022;
- On 28.04.2020 a regular General Meeting of the Bank's Shareholders was held, where the following decisions were passed:
  - Decision on adoption of the Annual Report for Komercijalna banka AD Beograd and regular financial statements for 2019 with an option of the external auditor;

- Decision on adoption of the Annual Report for the Group and consolidated financial statements for the Group Komercijalna banka AD Beograd for 2019 with the external auditor's opinion;
- Decision on distribution of profit from 2019 and retained earnings from previous years.

Due to the outbreak of the COVID-19 coronary virus pandemic in the Republic of Serbia on March 16.03.2020 declared a state of emergency that lasted until 06.05.2020.

The National Bank of Serbia is on 17.03.2020 passed a Decision on temporary measures to preserve the stability of the financial system, which regulates the measures and activities that the bank is obliged to implement in a pandemic caused by the COVID-19 virus, in order to preserve the stability of the financial system in the Republic of Serbia.

After the end of the second quarter till the day the Report was prepared, on 17.07.2020 an extraordinary General Meeting of the Bank's Shareholders was held, where the following decisions were adopted:

- Decision on the appointment of the Bank's external auditor for 2020 and
- Decision on adoption of the revised Strategy and Business Plan for Komercijalna banka AD Beograd for the period 2020 – 2022.

On 27.07.2020 the National Bank of Serbia passed the Decision on temporary measures for banks for the purpose of mitigating the consequences of the COVID–19 pandemic with the aim of preserving the stability of the financial system.

Based on the decisions of the General Meeting of Shareholders of the Bank, and after fulfilling all the necessary requirements,the Executive Board of the Bank on 20.08.2020. passed decisions on the payment of dividends for the business years 2014, 2015, 2016, 2017, 2018 and 2019.

Other significant events after the balance-sheet date in the Group and in Group members are disclosed in the Notes to consolidated financial statements – Events after the balance-sheet date.

6. PLAN FOR THE GROUP'S FUTURE DEVELOPMENT

Strategies and business plans for the future period are defined and adopted on the level of individual Group members[17].

Operation of subsidiaries, Group members, as well as the parent bank, will focus in the upcoming period mostly on maintaining but also on the growth of the market share with an acceptable level of operational risk, primarily credit risk. When talking about retail lending, as the most profitable customer segment, in the upcoming period, the group members will focus on expanding and improving customer base.

Apart from the retail segment, lending activity will also focus on micro clients, SMEs and municipalities.

In the upcoming period the conservative corporate lending policy will be pursued. Emphasis will be placed primarily on the quality of the loan portfolio, with enhanced monitoring of the client's business, financed projects and received collaterals. The aim is to timely identify all the warning signals that may point to the client's inability to settle their liabilities i.e. that will point to the difficulties in collection of receivables. The whole Group's management will focus also on speeding up the loan-approval process i.e. automation of processing of loan applications, as well as further digitalization of operation. It is not expected that the volume of NPLs will increase in the future.

17 This item of the report shows parts taken from standalone strategies and business plans for Group members i.e. from revised strategies and business plans for Group members.

Key pillars of the development strategy for **Komercijalna banka a.d. Beograd,** the parent bank, for the upcoming three-year period, are[18]:

- Increase in lending to clients (as the key aspect of future profitability in a situation of decreased interest rates on securities, with investment of excess liquidity into low-risk securities);
- Maintaining the quality of the loan portfolio with the aim of preserving the NPL on a low level, as well as the cost of credit risk;
- Improvement – change in the client structure – targeting the clients on the basis of demographics and standard (taking into consideration the development of innovative products, primarily digitalization); while moving within the customer base and preserving the quality of the existing portfolio;
- Increase in the share of fee and commission income, compared to the interest income (the Bank will focus more on fee and commission income given that decreasing tendency in interest rates and the implementation of digitalization with the aim of attracting new, younger clients);
- Controlling the level of operating expenses and further improvement of business efficiency (through stricter financial discipline) with the aim of reducing the ratio of opex to income, throughout the planned period (CIR);
- Maintaining adequate capital position, with the payment of accumulated dividend from previous years and dividends from planned profit in the upcoming three-year period (CAR ≈29.6% average over the upcoming planning period).

Strategic targets for the upcoming period for **Komercijalna banka a.d. Banja Luka** are[19]:

- increase in lending to customers, as the key aspect of profitability (proactive initiatives of cross-selling of other products intended to generate sustainable growth of high quality products, with the increase in lending to customers, with an accent on stability and quality of credit growth);
- early identification and control of risks that should result in low level of net cost of impairment (accent will be on stability and quality of the credit portfolio);
- improving client structure (apart from large companies, focus also on municipalities, SMEs and micro clients);
- stable share of fee and commission income (maintain stable share of net fee and commission income in the total net banking income);
- controlling the level of operating expenses (better financial discipline and control of operating expenses, decrease in CIR ratio over a three-year period);
- maintaining good capital position (despite the change in the regulations that have been applicable since 01.01.2020 and which affected the level of equity, the aim is to increase, by the end of the planned period, the total accounting capital and maintain the level of regulatory capital).

Key strategic targets in the operation of **Komercijalna banka a.d. Podgorica** for the upcoming planned period are[20]:

- focusing attention and activities primarily to private individuals with higher purchasing power, regular monthly salary, employees in stable institutions, public institutions, corporate entities;
- expanding the cooperation with private individual clients by tying them to as many products/ services the Bank can offer as possible;
- development and improvement of the Bank's image and continuous communication with the clients with the aim of increasing the number of smaller deposits (sight and fixed-term deposits) from private individuals and keeping all the deposits in the Bank;
- among private individuals enhance the activity in the cross-selling segment in the Bank with the aim of strengthening the relation with clients, increase in the number of products and income per client;

18 Strategy and Business Plan for Komercijalna banka a.d. Beograd for the period 2020 – 2022 and revised Strategy and Business Plan for Komercijalna banka a.d. Beograd for the period 2020 - 2022

19 Strategy and Business Plan for 2020-2022 for Komercijalna banka a.d. Banja Luka and revised Strategy and Business Plan for Komercijalna banka a.d. Banja Luka

20 Business Plan for Komercijalna banka a.d. Podgorica for the period 2022 – 2022 and the revision of the Business Plan for Komercijalna banka a.d. Podgorica for the period 2020 - 2022

- expanding and completing the activities on digitalization of business and implementation of new banking technologies in order to complement the offer to clients and facilitate the use of services and reduce expenses;
- in lending to retail customers, main focus will be on cash instead on housing loans, due to more favorable pricing terms;
- maintaining the level and quality of the loan portfolio of legal entities, while maintaining the healthy portion of the customer base;
- increase in the number of clients in the segment of micro and small enterprises that are not significantly hit by the crisis caused by the COVID-19 pandemic;
- strengthening the base of customers who have a deposit in the Bank;
- maintaining the continuity in guarantee operation.

Business targets of the IFMC **KomBank INVEST a.d. Beograd** for the future planned period are[21]:

- increase in balance-sheet assets in all three years of the planned cycle;
- the company's liabilities remain at the same level;
- investing assets into the Money fund's investment units;
- increase in the income from managing the fund, stable financial income while controlling the level of operating expenses, which will result in significant increase in annual net profit;
- as the result of growth of net profit in all three years of the planned cycle, high rates of return on assets and equity are expected;
- due to the expectation that the investment terms will be hindered, somewhat lower return on financial investments is expected.

7. RESEARCH AND DEVELOPMENT

The Group continuously monitors the activity on the banking product market and Group members independently use the available human resources and, if needed, hire also specialized, independent agencies for public opinion surveys.

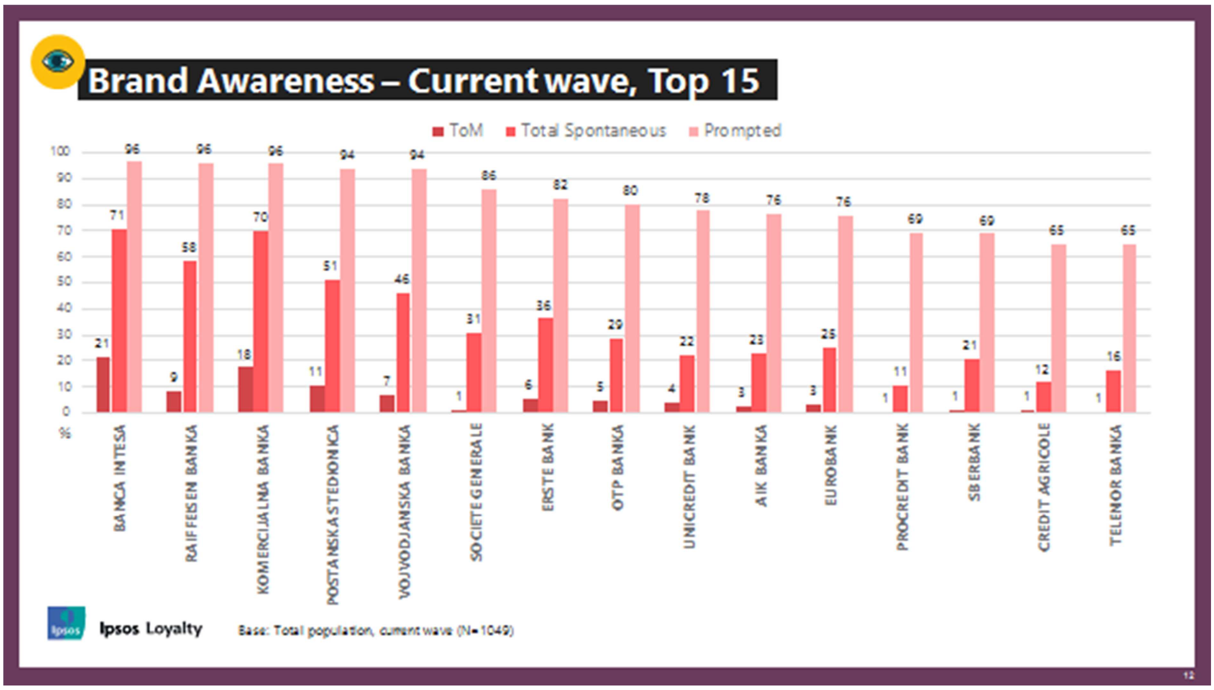
During 2020 Komercijalna banka has monitored, in detail and up-to-date, the events in the financial market and successfully adjusted itself to the conditions and changes in the market in order to maintain its leading position, which is attested by the conducted surveys.

Bank's market position as a brand, its products and services have been reviewed during 2020 as well , through the banking omnibus that is conduced by the "IPSOS" market research agency, specialized for this type of surveys. Surveys show that, over a long period, the Bank has maintained one of the leading positions in the public opinion, measured by the criteria of brand recognition, quality and satisfaction with products and services the clients use. All the results of the survey are posted on the Bank's internal portal and target groups are informed of them in order to additionally strengthen Komercijalna banka's brand.

Report of the last banking omnibus (from May 2020) shows that, in the opinion of the interviewees, when it comes to people's top-of-mind awareness of banking brands, the first place is occupied by Komercijalna banka, Banca Intesa and Raiffeisen bank, leaders among 15 banks in Serbia.

21 Business Plan for the IFMC KomBank Invest Beograd for the period 2020 - 2022

Brand recognition of banks in Serbia (banking omnibus, May 2020)



8. REPURCHASE OF TREASURY SHARES AND STAKES

Group members did not acquire treasury shares in the current business year and do not intend to acquire treasury shares in the upcoming period.

9. OPERATION OF SUBSIDIARIES BEFORE CONSOLIDATION

Subsidiaries (Komercijalna banka a.d. Banja Luka and Komercijalna banka a.d. Podgorica) maintain their accounts and prepare financial statements in accordance with the accounting regulations of Bosnia and Herzegovina (Republic of Srpska) and the Montenegro respectively. IFMC KomBank INVEST a.d. Beograd prepares its financial statements in accordance with the accounting regulations of the Republic of Serbia.

For the purpose of preparing consolidated financial statements, standalone financial statements of subsidiary banks and the company KomBank INVEST are adjusted to the presentation of financial statements on the basis of:

- the accounting regulations of the Republic of Serbia,
- internal by-laws of the parent bank – Komercijalna banka a.d. Beograd and
- the relevant IAS and IFRS.

Reclassified standalone balance-sheets of Group members before consolidation as of 30.06.2020

No.	ITEM	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST
	(in RSD thousand)				
1.	Cash and cash equivalents with the central bank	76.487.156	4.104.794	2.444.147	94
2.	Receivables from derivatives	3.490	-	-	-
3.	Securities	154.573.244	3.475.610	2.364.105	152.328
4.	Loans and receivables from banks and other financial organizations	19.186.238	1.459.578	955.566	16.100
5.	Loans and receivables from customers	188.897.608	17.571.686	11.767.236	-
6.	Investment into subsidiaries	5.480.888	-	-	-
7.	Intangible assets	568.956	43.566	27.627	-
8.	Property, plant and equipment	6.208.933	381.740	384.825	183
9.	Investment property	1.838.717	250.035	88.337	-
10.	Current tax assets	-	3.604	-	78
11.	Deferred tax assets	1.039.709	-	-	2.058
12.	Non-current assets held for sale and discontinued operations	138.017	103.439	200.856	-
13.	Other assets	5.268.257	34.154	444.397	2.236
14	**TOTAL ASSETS (from 1 to 13)**	**459.691.213**	**27.428.207**	**18.677.095**	**173.077**
15.	Deposits and other financial liabilities to banks, other financial organizations and central bank	4.532.788	5.594.113	967.681	-
16.	Deposits and other financial liabilities to clients	359.771.391	17.232.439	14.802.961	-
17.	Provisioning	1.831.147	21.185	130.586	12.641
18.	Current tax liabilities	-	-	69	-
19.	Deferred tax liabilities	-	13.343	7.585	-
20.	Other liabilities	17.936.010	444.241	201.110	1.783
21.	**TOTAL LIABILITIES (from 15 to 20)**	**384.071.336**	**23.305.320**	**16.109.992**	**14.424**
22.	Total capital	75.619.878	4.122.887	2.567.103	158.653
23.	**TOTAL LIABILITIES (21+22)**	**459.691.213**	**27.428.207**	**18.677.095**	**173.077**

NOTE: For the purpose of consolidation, the items in standalone (statutory) financial statements for Group members, that affect the correction of the balance-sheet total and the results in the P&L stated in statutory reports are reclassified. Adjusted (reclassified) financial statements present initial balance-sheet statements and items that are subject to consolidation.

Reclassified standalone P&Ls of Group members before consolidation for the period from 1 January to 30 June 2020.

No.	ITEM	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST
1	2	3	4	5	6
	(in RSD thousand)				
1.1.	Interest income	6.525.686	408.139	357.292	257
1.2.	Interest expenses	(574.142)	(94.438)	(62.061)	-
1.	**Net interest income**	**5.951.544**	**313.701**	**295.231**	**257**
2.1.	Net fee and commission income	3.225.705	122.008	107.605	13.267
2.2.	Fee and commission expenses	(845.769)	(38.340)	(23.943)	(1.202)
2.	**Net fee and commission income**	**2.379.936**	**83.668**	**83.662**	**12.064**
3.	Net profit/loss from the change in fair value of financial instruments	35.085	-	-	1.404
4.	Net profit loss from reclassification of financial instruments	-	-	-	-
5.	Net profit/loss from termination of recognition of financial instruments measured at fair value	108.307	6.793	1.168	4
6.	Net profit/loss from risk hedging	-	-	-	-
7.	Net income/expense from exchange rate difference and the effects of agreed currency clause	(8.161)	620	7.309	-
8.	Net income/expense from reduced impairment of financial assets not measured at fair value through P&L	(81.834)	(11.184)	(11.608)	-
9.	Net profit/loss from termination of recognition of financial instruments measured at amortized value	-	-	-	-
10.	Net profit/loss from termination of recognition of investment in affiliations and joint-ventures	-	-	-	-
11.	Other operating income	125.186	4.753	2.782	-
	TOTAL NET OPERATING INCOME	**8.510.063**	**398.351**	**378.544**	**13.729**
12.	Cost of salary, salary allowance and other personnel expenses	(3.110.456)	(181.988)	(146.668)	(7.728)
13.	Cost of depreciation	(492.842)	(57.807)	(46.425)	(10)
14.	Other income	734.678	5.232	5.667	5
15.	Other expenses	(2.714.297)	(135.340)	(143.293)	(3.437)
	PROFIT/LOSS (-) BEFORE TAX	**2.927.146**	**28.448**	**47.826**	**2.559**
16.	Profit tax	-	(3.654)	(69)	-
17.	Profit from deferred tax	17.252	-	883	-
18.	Loss from deferred tax	(158.749)	(278)	(3.064)	-
19.	**PROFIT/LOSS (-) AFTER TAX**	**2.785.649**	**24.516**	**45.576**	**2.559**

10. FINANCIAL INSTRUMENTS IMPORTANT FOR ASSESSMENT OF THE GROUP'S FINANCIAL POSITION

For adequate assessment of the Group's financial position as on 30.06.2020, the following financial instruments and balance-sheet items are of key importance: loans and receivables from customers, securities, cash and assets at the central bank, deposits and liabilities to other customers and equity.

As of 30.06.2020 the item Loans and receivables from customers account for 43.9% of total consolidated assets and increased by 10,002.4 million dinars from the start of the year.

The item Securities accounts for 32.3% of the total consolidated assets of the Group and increased by 16,085.9 million dinars compared to the start of the year. The above stated investment into securities consists mostly of the investment of Komercijalna banka a.d. Beograd into securities of the republic of Serbia in the amount of 154,573,2 million dinars, which accounts for 96.3% of the total amount on Group level.

As of 30.06.2020, cash and assets with the central bank account for 16.7% of consolidated assets (as of 31.12.2019 this item accounted for 16.1% of assets) and increased from the start of the year by 6,380.0 million dinars.

On the other hand, in consolidated liabilities of the Group, deposits and other liabilities to other customers account for 78.7% of consolidated liabilities (as of 31.12.2019 they accounted for 78.0%) and have increased by 20,819.1 million dinars. Deposits have been the core funding source also during 2020 for both subsidiaries and the parent bank.

The item total capital for the Group as of 30.06.2020 accounts for 15.5% of consolidated liabilities (as of 31.12.2019 it accounted for 16.7%) and decreased by 2,383.9 million dinars, mostly due to the changes in the accounting capital of Komercijalna banka a.d. Beograd due to recording of the Decision on distribution of profit from 2019 and retained earnings from previous years.

Group members are well capitalized and the capital adequacy ratio for the Group is 27,87% and is significantly above the statutory limit.

11. RISK MANAGEMENT

Risk management is a key element of managing business operations, since exposure to risks is inherent to all business operations, as inseparable part of banking operations, which is managed through risk identification, measurement, assessment, monitoring, control and mitigation, i.e. by establishing risk limitation, as well as through reporting in accordance with the applicable strategies and policies.

The Group has put in place a comprehensive and reliable risk management system, which includes: risk management strategies, policies and procedures, specific risk management methodologies; an appropriate organisational structure; an effective and efficient process for managing all risks to which the Group is or may be exposed in its operations; an adequate internal control system; an appropriate information system; and a sufficient internal capital adequacy assessment process. Also the Group's Recovery Plan has been integrated into the risk management system, as a mechanism for early identification of the situation of a severe financial disturbance in which the Group can undertake the measures or apply the defined recovery options to prevent entering into the early intervention phase in which the regulator has an active participation or improvements in the already deteriorated financial situation.

The Group's Risk Management Strategy and Capital Management Strategy and Plan set out the following objectives within the risk management system: minimising adverse effects on financial result and capital, subject to the defined framework of acceptable risk levels, maintaining the required level of capital adequacy, development of the Group's activities in accordance with the business strategies of individual members and possibilities and market development to achieve competitive advantages, diversification of risks to which the Group is exposed, maintaining the NPL share in total loans up to the acceptable level for the Group, maintaining liquidity coverage ratio above the level prescribed by the regulations and the internal limits.

The Group continually monitors all the announcements and changes to the regulatory framework, analyses the impact on risk level and undertakes measures for timely compliance of its operations with the new regulations. During the first half of 2020 the Group specifically monitored the changes in regulations which were aimed at the preserving the stability of the financial system, as well at the support to the economy in overcoming the consequences of COVID-19 virus pandemic, undertaken by the regulators in the markets in which the banking Group operates. In March 2020, the National Bank of Serbia, the Central Bank of Montenegro and the Banking Agency of Republika Srpska adopted decisions prescribing moratoria (delays in repayment of debtors' liabilities) in conditions of potential health risks in the home country of the parent Bank and the banking Group member countries and harmonized existing regulations in the field of risk management in banks, with which the Group complied in a timely manner in its operations.Through clearly defined process of introduction of new and considerably altered products, services and activities relating to processes and systems, the Group analyses their impact on future exposure to risks with the aim to optimize its income and expenses for the assessed risk, as well as to minimize all potentially possible adverse effects on the financial result of the Group.

Detailed view of Group’s risk management objectives and policies is provided in the Notes to the Consolidated Financial Statements.

Credit Risk Exposure Protection Policy

To safeguard against credit risk exposure, the Group applies the credit risk mitigation techniques by obtaining acceptable security instruments (collaterals) as secondary sources of loan recovery (collection of loans). The Group strives to deal with creditworthy clients, assessing their creditworthiness at the time of submitting the loan application and by regular monitoring of debtors, loans and collateral in order to be able to timely undertake relevant debt collection activities.

The types of collateral accepted depend on the assessed credit risk level of the debtor and are determined on the case-by-case basis and the collateral is obtained after the signing of an agreement, but before loan disbursement.

The collateral valuation, and/or credit protection instruments valuation and the management of the same are governed by the Group’s internal bylaws.

The Group pays special attention to the marketability and adequate valuation of collateral, in relation to which when assessing the value of collateral, it engages authorized appraisers to minimize the potential risk of unrealistic valuation, while real estate, goods, equipment and other movable items that are subject to pledge must be insured with an insurance company acceptable to the Group, with insurance policies endorsed in the favour of a specific banking Group member.

To safeguard against changes in the market value of collateral, the appraised value is adjusted for defined impairment percentages depending on the type of collateral and location of the property, which are subject to regular review and revision.

The Group pays special attention to monitoring of collaterals and undertakes activities for obtaining new valuations, as well as for obtaining the additional collateral, primarily for clients with identified operating problems, as well as for any clients whose collateral coverage ratio has been reduced due to a decline in the value of the obtained collateral.

For the purpose of adequate risk management, the Group performs analyses of credit risk at the time of loan approval and by establishing the system for monitoring, preventing and managing the risky loans, including the adequate identification of potentially risky clients (Watch List), it performs the credit risk mitigation with clients of the above status, and also by undertaking the measures and actions in order to protect the interest of the Group and to prevent the adverse effects on its financial result and capital.

During the first half of 2020, the Group continued to improve its risk management system. It revised the Risk Management Strategy (reduced the highest acceptable level of NPLs), supplemented and changed procedures and methodologies in order to comply with changes in local and international regulations and improved business practices. The Group continuously improves the risk management system, which relies on the postulates of the independence of the risk management function from risk centers, the timeliness of information flows that support the decision-making process, as well as the transparency and correctness of the information provided.

During the first half of 2020, in the emerging conditions caused by the COVID-19 virus pandemic, the Group successfully continued its activities on enhancement of the quality of credit portfolio by reducing the occurrence of new non-performing loans and solving the problem of clients who have already been recognized as non-performing, and it also conducted activities on reducing uncollectible loans (collection and write-off by transfer of fully impaired receivables to off-balance sheet records). Pursuant to the Decision of the National Bank of Serbia on Accounting Write-Off of Bank Balance Sheet Assets (applied as of 30.09.2017), and also in line with the regulations of the Central Bank of Montenegro and the Banking Agency of Republika Srpska, the parent Bank and Komercijalna banka ad Banja Luka, during the first half of 2020 were transfering 100% impaired loans from balance sheet to off-balance sheet records, which, besides the collection of risky loans, resulted in reduction of NPL ratio. During the first half of 2020, there was no transfer of 100% provisioned loans to off-balance sheet records in Komercijalna banka ad Podgorica.

The Group implements IFRS 9 standard and in accordance with the indicated standard carries out the calculation of impairment of balance sheet assets and probable loss on off-balance sheet items. The concept of „expected losses“ is applied through inclusion of the impact of the expected trends in macroeconomic factors on future trends of probability of occurrence of the default status on the basis of statistically proven interdependencies, while during the first half of 2020 the Group improved its methodology by introducing the possibility of use of multiple scenarios – if the need arises, including the expert-based scenarios under conditions which significantly differ from so far business experience of the banking Group. Portfolio is differentiated at three levels that are in line with the client's status (level 1 – PL clients without identified deterioration of credit risk, level 2 – PL clients with identified deterioration of credit risk- measured by the set of defined criteria, level 3 – NPL clients). In the context of the COVID-19 virus pandemic and the need to include additional expert assessments in the expected movement of the default rate, the Group assumed that the effects of this pandemic would result in a combination of V and U shaped curves, which are characterized by minor effects in 2020, while in 2021 the negative effects increased, with the expected recovery in 2022. Likewise, pursuant to IFRS 9 standard, the Group calculates also the impairment for exposures to the states and central banks of the Banking Group members, and permanent stakes (except for permanent stakes in subsidiaries) are measured at fair value.

During the first half of 2020 all Group members had the real increase in the provisions (P&L), which was caused by increase in individually impaired placements of the corporate clients in the parent Bank's portfolio, as the result of the assessment of significant increase in credit risk due to financial position deterioration, followed by increase of impairment for PL clients in corporate and retail segments due to transfers of certain clients from Stage 1 to Stage 2 based upon the identified increase in credit risk caused by significant impact of the COVID-19 virus pandemic on certain industries, accompanied by slight increase of the probability of default as the result of changes in expected macroeconomic factors' movements. As the result of all the aforementioned, the banking Group assessed the additional adjustment of the level of provisioning for credit risks, which is performed through the setting aside the additional protection layer of provisions or impact of deteriorated macroeconomic expectations.

Decrease in impairment provisions in the Group's balance sheet was mostly impacted by the transfer of 100% impaired loans from balance sheet to off-balance sheet records with the parent Bank.

In its operations the Group is particularly exposed to the following types of risks:

- Credit risk and related risks.
- Liquidity risk.
- Market risk.
- Interest rate risk in the banking book.
- Operational risk.
- Investment risk.
- Exposure risk.
- Country risk and all other risks that may arise in Group's regular operations.

Exposure to Credit Risk

Credit risk is the possibility of occurrence of negative effects on the financial result and capital of the Group caused by a debtor's failure to settle its liabilities towards the Group's members. Credit risk is determined by the debtor's creditworthiness, his timeliness in settling his liabilities to the Group's members and the quality of the collateral.

The acceptable level of exposure to credit risk for the Group is in line with the defined Risk Management Strategy and depends on the structure of the Group's portfolio, based on which it is enabled to limit the adverse effects on the financial result and capital of the Group, with minimizing the capital requirements for credit risk, settlement/delivery risk on free deliveries, counterparty risk, dilution risk, with the aim to maintain the capital adequacy at acceptable level. The Banks, the Group members, manage the credit risk at client level, group of related entities and the entire loan portfolio. They also approve the loans to clients (legal entities and private individuals) for whom they assess to be creditworthy, by conducting the analysis, or the quantitative and/or qualitative measurement and assessment of credit risk and the financial position of the debtor. The process of measuring the credit risk is based on measurement of the risk level of an individual loan on the basis of the internal rating system, and also by application of regulations. By monitoring and controlling the portfolio as a whole and by individual segments, the Group carries out comparison to previous periods, identifies trends and causes of changes in the level of credit risk. Also, it monitors the asset quality indicators (NPL trends, NPL coverage ratio by impairment provisions and alike), as well as the exposure according to the regulatory and internally defined limits. The process of loan quality monitoring allows the Group's members to assess potential losses as a result of the risks to which they are exposed and to undertake the appropriate corrective measures.

Exposure to Liquidity Risk

Liquidity risk is the possibility of occurrence of negative effects on the Group's financial result and capital due to inability of the Group's members to settle their due liabilities on account of withdrawal of the existing funding sources, and also due to inability to obtain new sources of funding – funding liquidity risk, as well as impeded conversion of assets into liquid assets due to market disruptions - market liquidity risk. The liquidity risk manifests itself as difficulty of the Group in settling the matured liabilities in case of insufficient liquidity reserves and inability of covering the unexpected outflows of other liabilities.

In their operations, the Parent Bank and Group members adhere to the core principles of liquidity by generating a sufficient level of liquid assets to cover their liabilities in the short term, i.e. they adhere to the principle of solvency by forming an optimum structure of own and borrowed sources of finance and forming sufficient level of liquidity reserves without jeopardising the planned return on equity.

Liquidity risk also manifests itself as inability of the Group to convert certain parts of its assets into liquid assets in a short period of time. The Group conducts analyses of the funding liquidity risk and market liquidity risk. The liquidity problem from the funding aspect refers to the structure of liabilities and manifests itself as a potentially significant share of unstable sources, short-term sources or their concentration. The funding liquidity risk indeed represents a risk that the Group will not be able to settle the liabilities due to withdrawal of unstable sources of funds, or inability of obtaining new funding sources. On the other hand, the liquidity risk also manifests itself through deficit of liquidity reserves and difficult or impossible access to liquid assets at acceptable market prices. During the first half of 2020 the Group complied with the regulatory and internally defined limits. Even in conditions of somewhat lower inflows, due to the application of the moratorium on loan repayment, all the liquidity risk indicators were higher than the defined limits during the second quarter of 2020.

The parent Bank, as well as Group members, actively undertakes the preventive measures in order to minimise the exposure to liquidity risk.

Exposure to Market Risks

Market risk represents the possibility of occurrence of adverse effects on the financial result and capital of the Group due to changes in market variables and includes foreign exchange risk relating to all of its operations and the price risk relating to the trading book positions.

The Group is exposed to foreign exchange risk which manifests itself through the possibility of occurrence of negative effects on financial result and capital due to volatility of exchange rates, and/or changes in the value of the domestic currency against foreign currencies, or changes in the value of gold and other precious metals. In order to minimize foreign exchange risk exposure, the Group diversifies currency structure of portfolio and currency structure of liabilities and it is adjusting open positions by individual currencies by adhering to principles of maturity transformation of assets. During the first half of 2020, the Group complied with the foreign exchange risk regulatory ratio, which is expressed as 20% of regulatory capital.

Exposure to Interest Rate Risk

Interest rate risk represents the risk of occurrence of adverse effects on financial result and capital of the Group based on positions from the banking book due to adverse changes in interest rates. The parent Bank, as well as Group members, comprehensively and timely identify the causes of any current exposure to interest rate risk and assess the factors of the future exposure to this risk. Exposure to this type of risk depends on the ratio of interest-sensitive assets and liabilities.

The aim of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of its impact on financial result and economic value of equity by applying an appropriate policy of maturity match in the re-pricing period and by matching sources of finance with loans by level of interest rates and maturity.

Exposure to Operational Risks

The operational risk is a risk of possible occurrence of negative effects on financial result and capital of the Group due to omissions in work by its employees, inadequate internal procedures and processes, inadequate management of information and other systems at the Group's member banks or due to occurrence of unforeseeable external events. Operational risk also includes legal risk, which is a risk of occurrence of negative effects on the Group's financial result and capital due to lawsuits or out-of-court proceedings. The Group's members carry out a measurement of exposure to operational risks through the event recording, monitoring the key risk indicators, self-assessment and stress testing of operational risk. Group undertakes measures to mitigate operational risks and proactively responds to potential operational risk events through continual monitoring of all activities, through implementing an appropriate and reliable information system, by whose application the business practice is improved and the business processes are optimised. To minimise legal risk and its effects on financial result, the Group continues improving its business practice in part of timely provisioning for lawsuits against the Group's member banks, and in compliance with the assessment of anticipated future loss on this basis.

Investment Risk

The Group's investment risk represents a risk of investment in other legal entities and in fixed assets and investment property. The level of permanent investment is monitored in accordance with the regulations and the Group's Bodies and Committees are notified accordingly. This ensures that investments by Group members in a single entity outside of the financial sector do not exceed 10% of the Group's capital and that investments by Group members in entities outside of the financial sector and in fixed assets and investment property do not exceed 60% of the Group's capital.

Large Exposure

Large exposure of the Group to a single entity or a group of related entities, including the Group's related entities, is defined as any exposure the value of which is at least 10% of the Group's equity. During the first half of 2020, the parent Bank and the banking Group members complied with the regulatory and internally defined exposure limits.

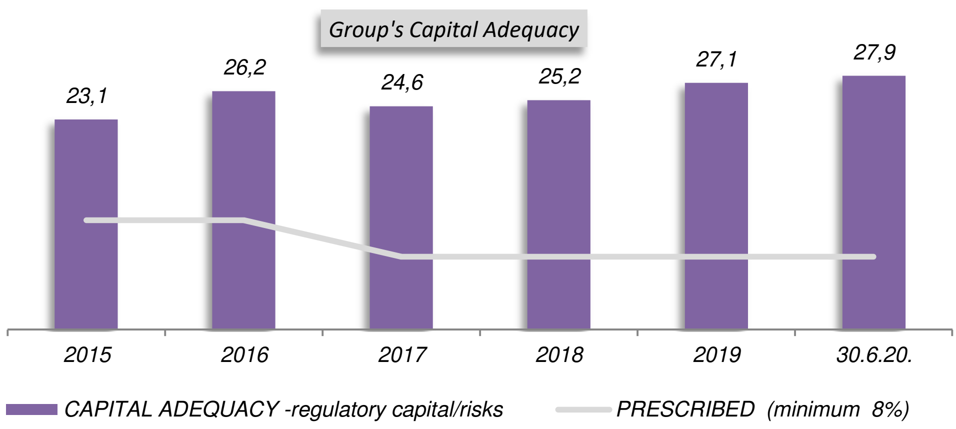
Exposure to Country Risk

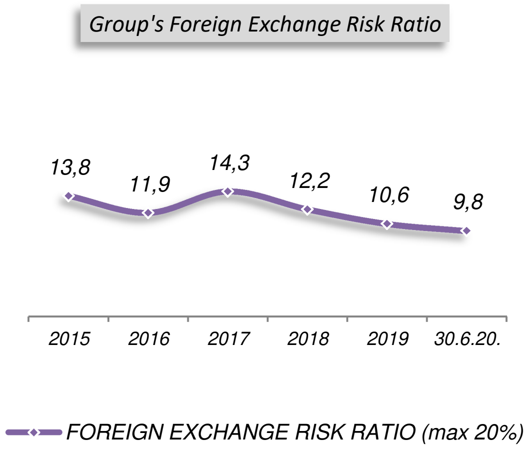
Country risk is the risk relating to the country of origin of an entity to whom the Group members are exposed, i.e. the risk of possible occurrence of negative effects on the Group's financial result and capital due to the inability by the Group members to collect its receivables from debtors for reasons resulted from political, economic or social circumstances in the debtor's country of origin. The Group's exposure to country risk is at an acceptable level.

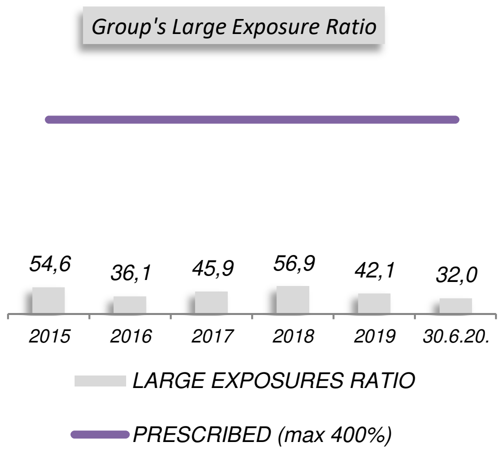
Regulatory Requirements for KB Group

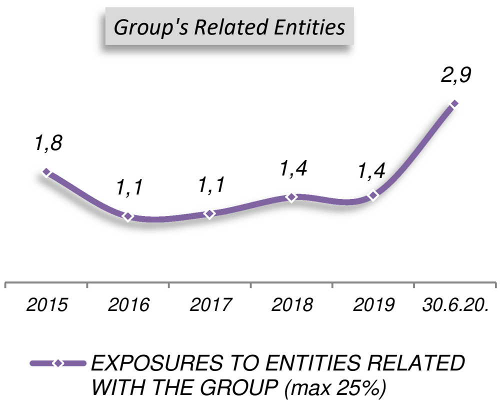
Under the Law on Banks: "The following shall be determined on a consolidated basis for a banking group:

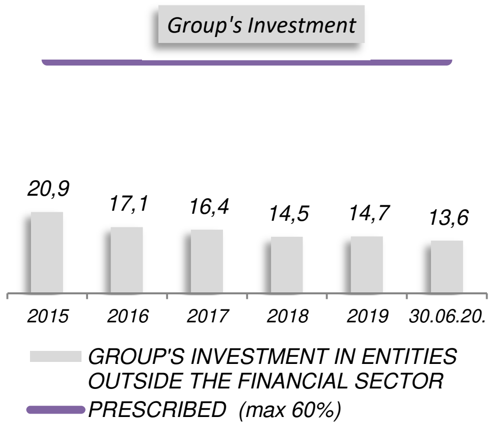
- capital adequacy ratio,
- large exposure,
- investment in other legal entities and in fixed assets and investment property,
- net open foreign exchange position,
- liquidity Coverage Ratio (LCR)".











12. CORPORATE SOCIAL RESPONSIBILITY OF THE GROUP

KOMERCIJALNA BANKA A.D. BEOGRAD

Special contribution to preserving and increasing the value of corporate image was made by the activities in the area of corporate social responsibility (CSR), which the Bank carefully selected and supported and in which it actively cooperated with its partners. The Bank welcomed all the babies born on 1 January this year with savings of 20,000 dinars given as a present. The campaign for purchasing equipment for general and maternity hospitals "Together for Babies" continued and, within it, early this year an incubator was donated to the general hospital in Vršac. Regular activities in the area of corporate social responsibility were interrupted by the extraordinary situation in Serbia caused by the corona virus pandemic. The Bank responded to this challenge with procedures that enabled operation in this situation, as well, as well as by focusing the funds on extraordinary purchase and donations in medical supplies and equipment for hospitals. At the start of the pandemic, 8 million dinars was donated to the National Health Insurance Fund for the purchase of ventilators, and in cooperation with the B92 Fund an incubator for the maternity hospital Dragiša Misovic was donated urgently, as this hospital cares for pregnant women and newborns diagnosed with COVID-19. In the same donation, 100 non-invasive masks were donated to this hospital, which replace the intubation of patients when using respirators and significantly facilitate the treatment process for patients.

All the activities that Komercijalna banka ad Beograd has implemented in this area are accompanied by the appropriate PR support without which modern business is unimaginable and which has proved to be necessary in extraordinary circumstance we found ourselves in this year. The Bank communicated clearly and in a quality and targeted manner with its stakeholders in order to inform them, in a timely manner, of all the changes that the business has suffered, as well as the safety procedures it has implemented. With this, the Bank has achieved mutual understanding and maintained trust in the Bank, which contributes to the improvement of acquired image and reputation.

Bank's marketing activities

Marketing activities in 2020 continued to promote products and services, both the existing and new ones, with constant reminding of the brand and brand refreshment. The first half of 2020 was characterized by campaigns related to the Bank's existing products and services, such as the campaign for cash, refinancing and housing loans, payment cards, the Bank's electronic services, etc.

Emphasis in promotion of payment cards was on the local DinaCard and a new DinaCard credit card was promoted, which was endorsed by the athlete Ivana Spanovic.

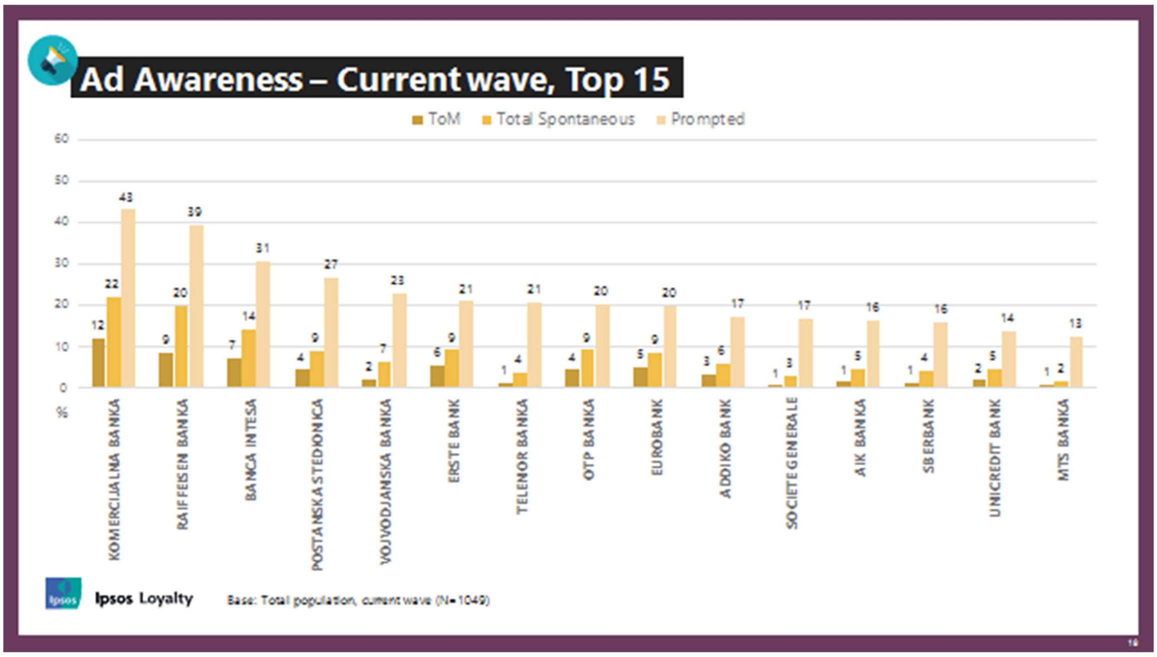
Bearing in mind the extraordinary situation due to the corona virus pandemic in March, apart from traditional communication channels, comprehensive communication continued via the Bank's website and social networks Facebook, Twitter, YouTube, Instagram, Viber, LinkedIn. These digital channels made a maximum contribution to informing the clients during the extraordinary situation because the information was updated daily. In this manner, the effects of communication were at the highest level, given that the advantages of both traditional and modern media were taken. Communication messages were aimed at inviting clients to protect themselves and at decreasing the presence of a larger number of people in closed spaces, as the most important preventive measures, as well as at the use of the Bank's electronic services – mobile and electronic banking, ATMs and payment cards. Marketing and PR communication was agreed with the Bank's overall business activities in relation to the pandemic (moratorium on loan repayment, payment of salaries, notification about the change in the working hours of branches, loans to support the economy, etc.).

All marketing activities were reported on our webpage www.kombank.com , as well as on the Bank's accounts on social networks.

In the analysis of raising awareness of banks, banking services and products, on the basis of advertisements, we can conclude that communication messages of Komercijalna banka a.d. Beograd achieve the best results in all three parameters. For the greatest percentage of the population, the commercials of Komercijalna banka a.d. Beograd are the first thing that comes to their mind when it comes to banking sector's advertising. Likewise, advertisements record the best results when it comes to spontaneous and assisted awareness.

When it comes to top-of-mind awareness of banking brands, the first position is occupied by Komercijalna banka, Raiffeisen bank and Banca Intesa.

Ad awareness of advertising campaigns in Serbia (banking omnibus, May 2020)



KOMERCIJALNA BANKA A.D. BANJA LUKA

As a socially responsible company, Komercijalna banka a.d. Banja Luka has supported for many years a range of projects from the area of economy, sport, education, as well as different activities aimed at supporting young generations and the wider community as a whole.

With its traditional presents to the first-born baby in Banja Luka, the Bank marked the start of socially responsible business activity in 2020, which resulted further in donated deposits on Cricket free savings to the best pupils in two primary schools in Banja Luka, on the occasion of the school celebration Saint Sava. Also, as part of the opening of the new branch of Komercijalna banka a.d. Banja Luka in Drvar, a donation was given to the kindergarten "Mother Courage" in Drvar. Traditionally, on the occasion of celebrating the Statehood Day of the Republic of Serbia, Komercijalna banka a.d. Banja Luka awarded the best literary works of pupils from the Republic of Srpska.

Komercijalna banka a.d. Banja Luka attaches great importance to cooperation with educational institutions and activities aimed at supporting education and development of young people. This is evidenced by the establishment of cooperation with the Faculty of Economics in Sarajevo that reflects in the exchange of knowledge and experience and joint participation in socially beneficial projects, such as guest lectures, internship, creation of research papers and enabling practice and employment in the Bank for graduated students.

Komercijalna banka a.d. Banja Luka was also involved in providing support to the health care system and improvement of medical treatments in healthcare institutions. In connection to this, funds were donated to the University Hospital of the Republic of Srpska for the purchase of uniforms and professional footwear for intensive medicine clinics for non-surgical branches of medicine. Apart from this, through the Association of Banks of Bosnia and Herzegovina, the Bank assisted in procurement of ventilators and protective equipment for the needs of clinical centers in Banja Luka, Sarajevo and Mostar.

The first half of 2020 was marked by the corona virus pandemic that reflected also on the Bank's operation in the sense that many events, fairs and festivals that the Bank traditionally contributed to were prevented and postponed. During the pandemic, in accordance with the regulations and recommendations, the Bank allowed its clients easier terms for loan repayment, as well as lower tariffs for transactions within the national payment traffic via electronic and mobile banking.

KOMERCIJALNA BANKA A.D. PODGORICA

Corporate social responsibility and the wish to assist and support all the projects that contribute to the wider community are an integral part of the activities of Komercijalna banka a.d. Podgorica. In 2020 the Bank supported an initiative of the Association of Banks for the assistance to the Clinical Center of Montenegro and donated funds as assistance for the purchase of ventilators in a situation of COVID–19 pandemic.

In 2020 the Bank continued with its activities on execution of the cooperation contract with the Faculty of Economics in Podgorica, with the aim of improving the knowledge and skills of students, through joint activities within this cooperation in order to prepare as best as possible for labor market. Cooperation involves a wide range of activities such as organization of joint professional debates and panel discussions, appearance of the Bank's representatives at the Faculty and vice-versa, joint design and preparation of studies, professional practice for the students of the Faculty of Economics in the Bank, as well as professional development of lecturers, trainers and employees on both sides.

Apart from this, Komercijalna banka a.d. Podgorica continued in 2020 with socially responsible activities that it has been continuously implementing for a number of years and provided support to a certain number of sports clubs, but also individuals that achieve significant results in the area of sport, science and art, as well as a number of citizens who requested financial assistance and are categorized as highly financially disadvantaged population.

Corporate governance rules

Corporate governance rules are based on the relevant regulations (Law on Banks and the Company Law). Corporate Governance Code has established the principles of corporate practice which the corporate governance implementers adhere to in the Banks' operation. The aim of the Corporate Governance Code is to introduce good business practice and high standards in the area of corporate governance that should enable the balance of the effect of the corporate governance implementers in the company, consistency of the control system, strengthen the trust of the shareholders, investor and other stakeholders, all with the aim of securing long-term and sustainable development of the Bank.

In its operation, Komercijalna banka a.d. Beograd, Parent Bank, in accordance with the Decision of the Bank's Executive Board No. 8373 of 09.04.2013 (http://www/pdf/izjava-o-primeni-kodeksa.pdf), applies the Corporate Governance Code of the Serbian Chamber of Commerce (Official Gazette of the Republic of Serbia, No. 99/2012), adopted by the General Meeting of the Serbian Chamber of Commerce. Corporate Governance Code establishes the principles of corporate practice, that the implementers of corporate governance of the Bank adhere to in their work. The aim of the Code is to introduce good business practice in the area of corporate governance, equal influence of all stakeholders, existing and potential shareholders, employees, clients, the Bank's bodies, the government, etc. the final aim is to ensure long-term and sustainable development of the Bank.

Wording of the Corporate Governance Code can be found on the webpage of Komercijalna banka a.d. Beograd http://www/sr/o-nama/korporativno-upravljanje).

In its operation, Komercijalna banka a.d. Banja Luka applies the Corporate Governance Standards adopted by the Securities Commission of the Republic of Srpska, in accordance with Article 309 of the Company Law (Official Gazette of the Republic of Srpska No. 127/08, 58/09, 100/11, 67/13, 100/17 and 82/19) and Article 260 of the Law on Securities Market (Official Gazette of the Republic of Srpska No. 92/06, 34/09, 30/12, 59/13, 108/13 and 4/17).

In accordance with the Company Law (Official Gazette of Montenegro No. 17/2007, 80/2008, 36/2011), as of the date of its registration as a joint-venture, Komercijalna banka a.d. Podgorica has acquired the capacity of a legal entity. As a joint-stock company, Komercijalna banka a.d. Podgorica regulates mutual relations of all stakeholders, in accordance with its memorandum of Association and the Articles of Association. The company's bodies are the Bank's General Meeting of Shareholders, Board of Directors, Audit Committee and executive directors. Roles of the banks' bodies are defined in the Articles of Association and the Bank's other by-laws. In its governance the Bank applies the best international corporate governance practice. Corporate governance is set up in such a manner that:

- in all segments of corporate governance the legal framework of Montenegro is observed, as well as good business practice,
- sets principles that are flexible and give space to the Board of Directors to manage and govern the Bank in the best manner and achieve the set targets,
- that all mutual relations of stakeholders involved in the Bank's operation are clearly differentiated, that there is no overlapping or gaps in duties and responsibilities and that a balance of duties and responsibilities i.e. rights and competences, is established between all the stakeholders,
- relations between all the stakeholders are set up in such a manner that joint interest prevails in all relations i.e. that the Bank's interest prevails over their individual interests,
- all management and governance functions are executed fully, efficiently and effectively i.e. that the Bank is managed in a manner that results in the achievement of the set targets and tasks.

These by-laws are incorporated in the implementation of the corporate governance rules, as are other internal by-laws of the Bank and there are no departures in their implementation.

KomBank INVEST a.d. Beograd is organized in the form of a single-member joint-stock company that is not public and has a bicameral management system. For the sake of impartiality, transparency and responsibility in corporate behavior, the Company applies the Rules of Operation approved by the Securities Commission, in accordance with Article 17 of the Law on Investment Funds (Official Gazette of the Republic of Serbia, No. 46/2006, 51/2009, 31/2011 and 115/2014), Rules of Conduct and Professional Ethics compliant with the parent company, Conflict of Interest Management Policy and Personal Transactions, etc.

Competences and authorization of all bodies of a Group member are based on the relevant laws and defined in the internal by-laws. Corporate Governance Rules have been implemented through internal by-laws and there are no departures in their implementation.

Signed on behalf of Komercijalna banka a.d. Beograd

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

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД БЕОГРАД 4

BALANCE SHEET CONSOLIDATED

as at 30.06.2020.

in RSD thousand

ITEM	ADP code	Amount	
		30.06. Current year	31.12. Previous year
1	2	3	4
ASSETS			
Cash and assets held with the central bank	0001	83.034.441	76.654.402
Pledged financial assets	0002	-	-
Receivables under derivatives	0003	3.490	-
Securities	0004	160.565.287	144.479.431
Loans and receivables from banks and other financial organisations	0005	18.761.791	26.990.004
Loans and receivables from clients	0006	218.236.530	208.234.158
Change in fair value of hedged items	0007	-	-
Receivables under hedging derivatives	0008	-	-
Investments in associated companies and joint ventures	0009	-	-
Investments into subsidiaries	0010	-	-
Intangible investments	0011	640.149	754.500
Property, plant and equipment	0012	6.975.681	7.254.391
Investment property	0013	2.177.089	2.202.616
Current tax assets	0014	3.682	6.786
Deferred tax assets	0015	1.041.767	1.076.255
Non-current assets held for sale and discontinued operations	0016	442.313	500.740
Other assets	0017	5.748.757	7.602.611
TOTAL ASSETS (from 0001 to 0017)	0018	497.630.977	475.755.894
LIABILITIES			
LIABILITIES, Liabilities under derivatives	0401	-	-
Deposits and other liabilities to banks, other financial organisations and central bank	0402	8.237.141	8.318.606
Deposits and other financial liabilities to clients	0403	391.806.791	370.987.710
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	1.995.559	2.483.410
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	69	2.673
Deferred tax liabilities	0411	20.928	32.349
Other liabilities	0412	18.582.856	14.559.570
TOTAL LIABILITIES (from 0401 to 0412)	0413	420.643.344	396.384.318
CAPITAL			
Share capital	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	4.645.243	9.981.896
Loss	0417	1.261.335	1.370.332
Reserves	0418	33.569.106	30.725.392
Unrealized losses	0419	-	-
Non-controlling participation	0420	69	70
TOTAL CAPITAL (0414-0415+0416-0417+0418-0419+0420) ≥ 0	0421	76.987.633	79.371.576
TOTAL CAPITAL SHORTFALL (0414-0415+0416-0417+0418-0419+0420) < 0	0422	-	-
TOTAL LIABILITIES (0413+0421-0422)	0423	497.630.977	475.755.894

INCOME STATEMENT - CONSOLIDATED

from 01.01.2020. to 30.06.2020.

in RSD thousand

ITEM	ADP code	Amount	
		01.01. - 30.06. Current year	01.01. - 30.06. Previous year
1	2	3	4
Interest income	1001	7.286.389	7.570.539
Interest expenses	1002	725.656	681.896
Net interest gains (1001-1002)	1003	6.560.733	6.888.643
Net interest losses (1002-1001)	1004	-	-
Income from fees and commissions	1005	3.464.697	3.634.300
Expenses on fees and commissions	1006	905.367	855.709
Net gains from fees and commissions (1005 - 1006)	1007	2.559.330	2.778.591
Net losses on fees and commissions (1006 - 1005)	1008	-	-
Net gains from changes in fair value of financial instruments	1009	36.489	38.839
Net losses from changes in fair value of financial instruments	1010	-	-
Net gains from reclassification of financial instruments	1011	-	-
Net losses on reclassification of financial instruments	1012	-	-
Net gains from derecognition of the financial instruments measured at fair value	1013	116.272	201.323
Net losses on derecognition of the financial instruments measured at fair value	1014	-	-
Net gains from hedging	1015	-	-
Net losses on hedging	1016	-	-
Net exchange rate gains and gains from agreed currency clause	1017	817	11.917
Net exchange rate losses and losses on agreed currency clause	1018	-	-
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	-	819.507
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	104.626	-
Net gains from derecognition of the financial instruments measured at amortised cost	1021	-	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	-	590.451
Net gains from derecognition of investments in associated companies and joint ventures	1023	-	-
Net losses on derecognition of investments in associated companies and joint ventures	1024	-	-
Other operating income	1025	132.556	74.779
TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1026	**9.301.571**	**10.223.148**
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1027	-	-
Salaries, salary compensations and other personal expenses	1028	3.446.840	2.481.269
Depreciation costs	1029	597.084	575.773
Other income	1030	745.582	434.243
Other expenses	1031	2.996.201	3.974.605
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	3.007.028	3.625.744
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) < 0	1033	-	-
Profit tax	1034	3.723	-
Gains from deferred taxes	1035	18.135	293
Losses on deferred taxes	1036	162.091	147
PROFIT AFTER TAX (1032-1033-1034+1035-1036) ≥ 0	1037	2.859.349	3.625.890
LOSSES AFTER TAX (1032-1033-1034+1035-1036) < 0	1038	-	-
Net profit from discontinued operations	1039	-	-
Net losses on discontinued operations	1040	-	-
RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1041	2.859.349	3.625.890
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-
Profit belonging to a parent entity	1043	2.859.349	3.625.889
Losses belonging to a parent entity	1044	-	1
Losses belonging to a parent entity	1045	-	-
Losses belonging to non-controlling owners	1046	-	-
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	1047		
Diluted earnings per share (in dinars, without paras)	1048		

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

from 01.01.2020. to 30.06.2020.

in RSD thousand

ITEM	ADP code	Amount 01.01. - 30.06. Current year	01.01. - 30.06. Previous year
1	2	3	4
PROFIT FOR THE PERIOD	2001	2.859.349	3.625.890
LOSS FOR THE PERIOD	2002	-	-
Other comprehensive income for the period			
Components of other comprehensive income which cannot be reclassified to profit or loss:			
Increase in revaluation reserves based on intangible assets and fixed assets	2003	7.894	-
Decrease in revaluation reserves based on intangible assets and fixed assets	2004	-	-
Actuarial gains	2005	-	-
Actuarial losses	2006	-	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	25.076	458.739
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	863	-
Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009	-	-
Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010	-	-
Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011	-	-
Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014	-	-
Components of other comprehensive income that may be reclassified to profit or loss:			
Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	2015	-	616.216
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	890.402	3.275
Gains from cash flow hedges	2017	-	-
Losses from cash flow hedges	2018	-	-
Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019	-	-
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	2.019	14.462
Unrealised gains from hedge of net investments in foreign operations	2021	-	-
Unrealised losses from hedge of net investments in foreign operations	2022	-	-
Unrealised gains from other hedging instruments	2023	-	-
Unrealised losses from other hedging instruments	2024	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2025	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2026	-	-
Tax gains relating to other comprehensive income for the period	2027	125.829	-
Tax losses relating to other comprehensive income for the period	2028	4.945	160.512
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	2029	-	896.706
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	2030	739.430	-
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	2.119.919	4.522.596
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	-	-
Total positive comprehensive income for the period attributable to the parent entity	2033	2.119.919	4.522.595
Total positive comprehensive income for the period attributable to non-controlling owners	2034	-	1
Total negative comprehensive income for the period attributable to the parent entity	2035	-	-
Total negative comprehensive income for the period attributable to non-controlling owners	2036	-	-

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД

CASH FLOW STATEMENT - CONSOLIDATED

from 01.01.2020. to 30.06.2020.

in RSD thousand

ITEM	ADP code	Amount	
		01.01. - 30.06. Current year	01.01. - 30.06. Previous year
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflow from operating activities (from 3002 to 3005)	3001	11.179.920	13.361.918
1. Interest	3002	7.385.896	8.821.859
2. Fees	3003	3.500.432	3.676.415
3 Other operating income	3004	289.503	860.617
4. Dividends and profit sharing	3005	4.089	3.027
II. Cash outflow from operating activities (from 3007 to 3011)	3006	6.308.846	6.666.633
5. Interest	3007	557.831	545.113
6. Fees	3008	923.478	815.433
7. Gross salaries, salary compensations and other personal expenses	3009	2.125.904	2.112.949
8. Taxes, contributions and other duties charged to income	3010	426.862	432.895
9. Other operating expenses	3011	2.274.771	2.760.243
III. Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)	3012	4.871.074	6.695.285
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	18.892.772	4.215.320
10. Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	-
11. Decrease in receivables under securities and other financial assets not intended for investment	3016	-	-
12. Decrease in receivables under hedging derivatives and change in fair value of hedged items	3017	-	-
13. Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	3018	18.892.772	4.215.320
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	3.580.065	6.935.696
16. Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	3.526.248	4.894.238
17. Increase in receivables under securities and other financial assets not intended for investment	3023	53.817	2.041.458
18. Increase in receivables under hedging derivatives and change in fair value of hedged items	3024	-	-
19. Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	3025	-	-
20. Decrease in other financial liabilities	3026	-	-
21. Decrease in liabilities under hedging derivatives and change in fair value of hedged items	3027	-	-
VII. Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)	3028	20.183.781	3.974.909
VIII. Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22. Profit tax paid	3030	3.221	18.233
23. Dividends paid	3031	-	-
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	20.180.560	3.956.676
X. Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)	3033	-	-
B. CASH FLOW FROM INVESTING ACTIVITIES			
I. Cash inflow from investing activities (from 3035 to 3039)	3034	15.379.003	38.295.787
1. Investment in investment securities	3035	15.379.003	38.289.869
2. Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3. Sale of intangible investments, property, plant and equipment	3037	-	5.918
4. Sale of investment property	3038	-	-
5. Other inflow from investing activities	3039	-	-
II. Cash outflow from investing activities (from 3041 to 3045)	3040	34.009.095	36.221.393
6. Investment into investment securities	3041	33.893.816	35.818.086
7. Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8. Purchase of intangible investments, property, plant and equipment	3043	115.279	403.307
9. Purchase of investment property	3044	-	-
10. Other outflow from investing activities	3045	-	-
III. Net cash inflow from investing activities (3034 - 3040)	3046	-	2.074.394
IV. Net cash outflow from investing activities (3040 - 3034)	3047	18.630.092	-
C. CASH FLOW FROM FINANCING ACTIVITIES			
I. Cash inflow from financing activities (from 3049 to 3054))	3048	108.453.378	37.207.782
1. Capital increase	3049	-	-
2. Subordinated liabilities	3050	-	-
3 Loans taken	3051	108.453.378	37.207.782
4. Issuance of securities	3052	-	-
5. Sale of own shares	3053	-	-
6. Other inflow from financing activities	3054	-	-
II. Cash outflow from financing activities (from 3056 to 3060)	3055	106.823.443	36.819.633
7. Purchase of own shares	3056	-	-
8. Subordinated liabilities	3057	-	-
9. Loans taken	3058	106.558.542	36.603.747
10. Issuance of securities	3059	-	-
11. Other outflow from financing activities	3060	264.901	215.886
III. Net cash inflow from financing activities (3048 - 3055)	3061	1.629.935	388.149
IV. Net cash outflow from financing activities (3055 - 3048)	3062	-	-
D. TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3063	153.905.073	93.080.807
E. TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	150.724.670	86.661.588
F. NET INCREASE IN CASH (3063-3064)	3065	3.180.403	6.419.219
G. NET DECREASE IN CASH (3064-3063)	3066	-	-
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	44.519.620	44.530.135
I. EXCHANGE RATE GAINS	3068	768.347	630.009
J. EXCHANGE RATE LOSSES	3069	684.116	611.396
K. CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)	3070	47.784.254	50.967.967

from 01.01.2020. to 30.06.2020.

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED

in RSD thousand

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 columns 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
Opening balance as at 1 January of the previous year	4001	17.191.466	4033	-	4065	22.843.084	4097	17.503.844	4129	6.187.794	4147	257	4165	9.277.755	4203	1.481.701	4241	66	4285	71.522.051	4291	-
Effects of the first implementation of new IFRS - increase	4002	-	4034	-	4066	-	4098	-	4130	-	4148	-	4166	-	4204	-	4242	-	x	x	x	x
Effects of the first implementation of new IFRS – decrease	4003	-	4035	-	4067	-	4099	-	4131	-	4149	-	4167	-	4205	-	4243	-	x	x	x	x
Changes in accounting policies and correction of prior period error – increase	4004	-	4036	-	4068	-	4100	-	4132	-	4150	-	4168	-	4206	-	4244	-	x	x	x	x
Changes in accounting policies and correction of prior period error – decrease	4005	-	4037	-	4069	-	4101	-	4133	-	4151	-	4169	-	4207	-	4245	-	x	x	x	x
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	17.503.844	4134	6.187.794	4152	257	4170	9.277.755	4208	1.481.701	4246	66	4286	71.522.051	4292	-
Total positive other comprehensive income for the period	x	x		x	x	x	x	x	4135	2.688.252	4153	9	x	x	x	x	4247	-	x	x	x	x
Total negative other comprehensive income for the period	x	x		x	x	x	x	x	4136	-	4154	-	x	x	x	x	4248	-	x	x	x	x
Profit for the current year	x	x		x	x	x	x	x	x	x	x	x	4171	8.399.863	x	x	4249	2	x	x	x	x
Loss for the current year	x	x		x	x	x	x	x	x	x	x	x	x	x	4209	-	4250	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – increase	x	x		x	x	x	x	x	x	x	x	x	4172	-	4210	-	4251	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x		x	x	x	x	x	x	x	x	x	4173	-	4211	-	4252	-	x	x	x	x
Transactions with owners recognized directly in equity – increase	4007	-	4039	-	4071	-	4103	-	x	x	x	x	4174	-	4212	-	4253	-	x	x	x	x
Transactions with owners recognized directly in equity – decrease	4008	-	4040	-	4072	-	4104	-	x	x	x	x	4175	-	4213	-	4254	-	x	x	x	x
Distribution of profit – increase	4009	-	4041	-	4073	-	4105	4.347.844	x	x	x	x	4176	-	4214	-	4255	-	x	x	x	x
Distribution of profit and/or coverage of losses – decrease	4010	-	4042	-	4074	-	4106	-	x	x	x	x	4177	4.451.668	4215	103.824	4256	-	x	x	x	x
Dividend payments	4011	-	4043	-	4075	-	4107	-	x	x	x	x	4178	3.258.073	4216	-	4257	-	x	x	x	x
Other – increase	4012	-	4044	-	4076	-	4108	-	x	x	x	x	4179	22.366	4217	-	4258	2	x	x	x	x
Other – decrease	4013	-	4045	-	4077	-	4109	2.094	x	x	x	x	4180	8.347	4218	7.545	4259	-	x	x	x	x
Total transactions with owners (No. 13-14+15-16-17+18-19) ≥ 0	4014	-	4046	-	4078	-	4110	4.345.750	x	x	x	x	4181	-	4219	-	4260	2	x	x	x	x
Total transactions with owners (No. 13-14+15-16-17+18-19) < 0	4015	-	4047	-	4079	-	4111	-	x	x	x	x	4182	7.695.722	4220	111.369	4261	-	x	x	x	x
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	21.849.594	4137	8.876.046	4155	248	4183	9.981.896	4221	1.370.332	4262	70	4287	79.371.576	4293	-
Opening balance as at 1 January of the current year	4017	17.191.466	4049	-	4081	22.843.084	4113	21.849.594	4138	8.876.046	4156	248	4184	9.981.896	4222	1.370.332	4263	70	4288	79.371.576	4294	-
Effects of the first implementation of new IFRS - increase	4018	-	4050	-	4082	-	4114	-	4139	-	4157	-	4185	-	4223	-	4264	-	x	x	x	x
Effects of the first implementation of new IFRS – decrease	4019	-	4051	-	4083	-	4115	-	4140	-	4158	-	4186	-	4224	-	4265	-	x	x	x	x
Changes in accounting policies and correction of prior period error – increase	4020	-	4052	-	4084	-	4116	-	4141	-	4159	-	4187	-	4225	-	4266	-	x	x	x	x
Changes in accounting policies and correction of prior period error – decrease	4021	-	4053	-	4085	-	4117	-	4142	-	4160	-	4188	-	4226	-	4267	-	x	x	x	x
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	21.849.594	4143	8.876.046	4161	248	4189	9.981.896	4227	1.370.332	4268	70	4289	79.371.576	4295	-
Total positive other comprehensive income for the period	x	x	x	x		x	x	x	4144	-	4162	-	x	x	x	x	4269	-	x	x	x	x
Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4145	739.492	4163	-	x	x	x	x	4270	-	x	x	x	x
Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4190	2.859.349	x	x	4271	-	x	x	x	x
Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x		x	4228	-	4272	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4191	-	4229	-	4273	-	x	x	x	x
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
Transactions with owners recognized directly in equity – increase	4023	-	4055	-	4087	-	4119	-	x	x	x	x	4193	-	4231	-	4275	-	x	x	x	x
Transactions with owners recognized directly in equity – decrease	4024	-	4056	-	4088	-	4120	-	x	x	x	x	4194	-	4232	-	4276	-	x	x	x	x
Distribution of profit – increase	4025	-	4057	-	4089	-	4121	3.583.264	x	x	x	x	4195	-	4233	-	4277	-	x	x	x	x
Distribution of profit and/or coverage of losses – decrease	4026	-	4058	-	4090	-	4122	-	x	x	x	x	4196	3.692.065	4234	108.801	4278	-	x	x	x	x
Dividend payments	4027	-	4059	-	4091	-	4123	-	x	x	x	x	4197	4.477.879	4235	-	4279	-	x	x	x	x
Other – increase	4028	-	4060	-	4092	-	4124	-	x	x	x	x	4198	-	4236	-	4280	-	x	x	x	x
Other – decrease	4029	-	4061	-	4093	-	4125	58	x	x	x	x	4199	26.058	4237	196	4281	1	x	x	x	x
Total transactions with owners (No. 35-36+37-38-39+40+41) ≥ 0	4030	-	4062	-	4094	-	4126	3.583.206	x	x	x	x	4200	-	4238	-	4282	-	x	x	x	x
Total transactions with owners (No. 35-36+37-38-39+40+41) < 0	4031	-	4063	-	4095	-	4127	-	x	x	x	x	4201	8.196.002	4239	108.997	4283	1	x	x	x	x
Balance as at 30 June 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	25.432.800	4146	8.136.554	4164	248	4202	4.645.243	4240	1.261.335	4284	69	4290	76.987.633	4296	-

KOMERCIJALNA BANKA AD BEOGRAD

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS AS OF

30.06.2020

Belgrade, August 2020

1. ESTABLISHMENT AND BUSINESS ACTIVITY OF THE BANKING GROUP

Komercijalna Banka a.d. Beograd (hereinafter: the Parent Bank) was founded on 1st December 1970 and transformed into a joint-stock company on 6th May 1992. The Parent Bank was registered at the Commercial Court in Belgrade on 10 July 1991 and was legally reregistered at the Business Registers Agency on 14th April 2006. Parent Bank was issued a banking licence from the National Bank of Yugoslavia on 3rd July 1991. Tax identification number of the Parent Bank is 100001931.

The greatest stake in the voting shares of the Parent Bank has:

Republic of Serbia	83.23%

The Parent Bank has three subsidiaries with a stake in ownership:

- 100% - Komercijalna Banka a.d. Podgorica, Montenegro
- 100% - Investment Fund Management Company KomBank INVEST a.d. Beograd, Serbia,
- 99.998% - Komercijalna Banka a.d. Banja Luka, Bosnia and Herzegovina.

Minority shareholder in Komercijalna Banka a.d. Banja Luka with 0.002% is the Export Credit and Insurance Agency of the Republic of Serbia.

Consolidated financial statements and notes to consolidated financial statements present the data of the Parent Bank, Komercijalna Banka a.d. Podgorica, Komercijalna Banka a.d. Banja Luka and the Investment Fund Management Company KomBank Invest a.d. Beograd (hereinafter: Group).

Komercijalna Banka a.d. Podgorica was founded in November 2002 as an affiliate of Komercijalna Banka a.d. Beograd and was registered in the central register of the Commercial Court in Podgorica on 6th March 2003. Registration number of Komercijalna Banka a.d. Podgorica is 02373262. In July 2018 Komercijalna Banka a.d. Podgorica changed its name and headquarters from Komercijalna Banka a.d. Budva into Komercijalna Banka a.d. Podgorica with a headquarters in Podgorica.

Komercijalna Banka a.d. Banja Luka was founded in September 2006 and on 15th September 2006 it was registered in the court register with the Decision of the Basic Court in Banja Luka. Registration number of Komercijalna Banka a.d. Banja Luka is 11009778.

Investment Fund Management Company KomBank INVEST a.d. Beograd was founded in December 2007 and was registered on 5th February 2008. The Company's registration number is 20379758.

Activities of the Group include credit, deposit and guarantee operations and national and international payment transactions in accordance with the Law on Banks, as well as the tasks of managing investment funds. The Group is obliged to operate on the principles of liquidity, safety and profitability.

As of 30th June 2020 the Group consisted of: headquarters and the seat of the Parent Bank in Belgrade, 14 Svetog Save Street; headquarters of Komercijalna Banka a.d. Podgorica in Podgorica – Cetinjska 11, Business Centre Capital Plaza; headquarters of Komercijalna Banka a.d. Banja Luka in Banja Luka – Jevrejska Street no. 69; headquarters of the Investment Fund Management Company KomBank INVEST a.d. Beograd in Belgrade, 19 Kralja Petra Street; 6 business centres, 3 divisions for small and medium-sized enterprises, 20 branches and 213 outlets on the territory of Serbia, Montenegro and Bosnia and Herzegovina (in 2019: 6 business centres, 3 divisions for small and medium –sized enterprises, 20 branches and 213 outlets).

As of 30th June 2020 the Group had 3,022 employees, and as of 31st December 2019, 3,056 employees.

2. BASES FOR CONSOLIDATED FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Bases for consolidated financial statements preparation and presentation

Consolidated financial statements for the Group as of 30.06. 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS).

Enclosed consolidated financial statements were prepared in the format prescribed by the Rulebook on the contents, form and manner of disclosing annual, semi-annual and quarterly statements of public companies (RS Official Gazette No. 14/2012, 5/2015 and 24/2017) on the basis of the Law on Capital Market (RS Official Gazette 31/2011, 112/2015, 108/2016 and 9/2020). The prescribed set of consolidated financial statements consists of: Balance-Sheet, Profit & Loss, Statement of Other Comprehensive Income, Cash-Flow Statement, and Statement of Changes in Equity and Notes to Consolidated Financial Statements.

Consolidated financial statements are prepared in accordance with the principle of historical expense, except if stated differently in the accounting policies presented further in this document.

When preparing these financial statements the Parent Bank applied the accounting policies specified in Note 3.

When preparing the semi-annual financial statements for 2020 the Group applied new Accounting policies in the part that concerns the financial instruments and enabling the allocation of credit loss to all accounting periods when benefits from funds are derived, which is an assumption for determining the accurate result.

The Group has implemented the new IFRS 16 from its effective date 1st January 2019, and harmonized the Accounting Policies adopted by the Board of Directors of the Parent Bank in June 2019.

In addition to the amendments made according to the requirements of the accounting standard IFRS 16 - Leasing, the new Accounting Policies contain amendments in relation to the previous ones, specifying the fees that form the integral part of the EIR and the method of deferring fees, in accordance with the requirements of IFRS 9.

When compiling and presenting the periodic financial statements for the period January - June 2020, the legal regulations of the NBS were applied, according to which banks were obliged to apply the forms of financial statements valid as of January 1, 2018. At the beginning of July 2020, the NBS published a set of legal regulations, relating to banks, with the obligation to apply the new forms of financial statements that are prepared as of December 31, 2021.

International Accounting Standard 16 Leasing is effective for annual periods beginning on or after the 1st of January 2019. IFRS 16 defines the principles for recognizing, measuring, presenting and disclosing the leases to both parties of a contract, that is, to the lessee and the lessor, and requires the lessee to account for all leases under a single Balance Sheet model similar to financial leasing accounting in accordance with IAS 17. The standard includes two exemptions from recognition for the lessees - leases of “low value property” and short-term leases (i.e. leases with a lease term of 12 months or less). The Parent Bank has chosen to use the standard-enabled exemptions.

From the perspective of the lessee, the significant changes introduced by IFRS 16 relate to the following requirements:

- Accounting records
  - As part of the Balance Sheet, the lessee recognizes the leased asset and the current value of the lease liability.
  - The following items are recognized as an expense of the period by the lessee:
    - Depreciation of the right-of-use asset,
    - Interest on leasing liabilities,
    - Variable lease payments that are not included in the lease obligation and
    - Impairment of assets.

  Therefore, in order to calculate the current value of the lease liability, if the discount rate is not explicitly stated in the lease agreements, the lessee applies an incremental borrowing rate, which is the interest rate that the lessee would have to pay in the similar period and with similar guarantees in order to borrow the funds necessary for the acquisition of an asset of similar value as an asset with a right of use, and in a similar economic environment.

- Assessment of eligibility for recognition of leases

  The contract is a lease or contains a lease if the following conditions are cumulatively fulfilled:
    - There is an identified tool,
    - The lessee determines the manner and purpose of using the identified asset and
    - The lessee receives all economic benefits from using the asset.

- Exemption from leasing viewed from the perspective of the lessee:
    - Short term leasing - leasing with a lease term of up to 12 months and
    - Leasing of low value assets.

- The lessee who chose this accounting policy with reference to the exceptions:
    - does not recognize leasing of assets with a right of use and leasing liabilities in the Balance Sheet and
    - The leasing payments associated with that lease are recognized as an expense, on a straight-line basis over the life of the lease or by another more acceptable method.

The Group made the transition according to a modified retrospective approach. The comparative figures from the previous year were not adjusted.

During 2020, the Group members maintained the books of accounts and prepared standalone financial statements in accordance with local legal requirements, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as well as the regulations of the competent central banks and regulatory bodies. The standalone annual financial statements of each member of the Group have been audited by external auditors, in accordance with applicable local regulations. The semi-annual financial statements are not subject to audit in accordance with the applicable legal regulations of the Group members.

For the purpose of preparing consolidated financial statements, the standalone financial statements of subsidiaries are adjusted to the presentation of the financial statements in accordance with the accounting regulations of the Republic of Serbia.

The Group's consolidated financial statements are presented in thousands of dinars. The dinar represents the official reporting currency in the Republic of Serbia. Unless otherwise stated, all amounts are stated in dinars and rounded in thousands.

Functional currencies EUR from the financial statements of Komercijalna Banka a.d. Podgorica and BAM from the financial statements of Komercijalna Banka a.d. Banja Luka have been converted into the reporting currency i.e. the functional currency of the Parent Bank – the dinar (RSD) on the basis of the official exchange rate of the National Bank of Serbia.

3. OVERVIEW OF KEY ACCOUNTING POLICIES

Accounting policies, specified below, are applied by Group members in the presented periodic financial statements.

(a) Consolidation

Parent Bank has control over the following legal entities, whose consolidation has been performed in these financial statements:

Legal entity	Share in equity
Komercijalna Banka a.d. Podgorica, Montenegro	100%
Komercijalna bank a.d. Banja Luka, Bosnia and Herzegovina	99.998%
Investment Fund Management Company KomBank INVEST a.d. Beograd	100%

When preparing consolidated Profit and Loss Statement and consolidated Cash Flow Statement, for recalculation of reclassified forms of subsidiary banks an average exchange rate of the National Bank of Serbia was used for 2020 of 117.5746 to the EUR and 60.1150 to the BAM and for other reclassified financial statements (Balance Sheet, Statement of Other Comprehensive Income and Statement of Changes in Equity) the closing exchange rate on the balance-sheet date was used of 117.5760 to the EUR or 60.1157 to the BAM.

(b) Recalculation of FX amounts

Business changes in a foreign currency have been recalculated into dinars at the mid-market rate for the currency, valid on the date of the business change.

Monetary items of assets and liabilities in a foreign currency, expressed in purchase value, have been converted into dinars, at the mid-market rate that vas valid on the balance-sheet date. Exchange rate gains/loss arising as a result of recalculation of FX items have been presented within Profit and Loss Statement. Non-monetary items of assets that are valued at purchase value in a foreign currency have been recalculated into dinars at the mid-market exchange rate valid on the date of business change.

Exchange rates of the most important currencies that were used when recalculating the balance-sheet items presented in a foreign currency have been set by the National Bank of Serbia and amounted to the following

		In dinars
	30.06.2020.	**31.12.2019.**
USD	104.6329	104.9186
EUR	117.5760	117.5928
CHF	109.9252	108.4004
BAM	60.1157	60.1242

(v) Interest

Interest income and expenses, including penalty interest and other income and other expenses related to interest-bearing assets and liabilities have been calculated on accrual basis with the conditions from the contractual relation specified in the contract between the Group member and the client.

Interest income and expenses are recognized in the profit&loss by applying the effective interest rate method. Effective interest rate is the rate at which future cash flows are discounted during the expected life of a financial asset or liability (or, according to the need, for a shorter period) against its present value.

When calculating the effective interest rate, Group members assess the future cash flows, taking into consideration all the agreed conditions that relate to a financial instrument, but also future losses that might arise.

Calculation of effective interest rate includes all paid or received fees and expenses that are an integral part of effective interest rate.

The Group's accounting policies define the specific fees that form an integral part of the EIR and the method of deferring them over the life of loans, as well as recording them within interest income, in accordance with IFRS 9.

Fees that are part of the effective interest rate of a financial instrument include the following types of fees, in accordance with IFRS 9

1. The fee charged by the bank in connection with the issuance or acquisition of a financial asset. Such fees may include compensation for the assessment of the borrower's financial condition, assessing and recording guarantees, collateral and other security arrangements, negotiating the terms of the financial instrument, preparing and processing documents, and closing the transaction;
2. The fee the bank receives for granting a loan when it is likely that the loan arrangement will be realized;
3. Fees payable on the issue of financial liabilities that are measured at amortized cost.

When initially recognizing loans to private individuals and legal entities, members of the Group include, as a part of the effective interest rate that forms the amortized cost of the loan, loan application fees that are levied on clients, private individuals or legal entities, when granting loans, which are deferred using the EIR method over the life of the loan and recognized as interest income.

By way of derogation from the preceding paragraph, if the loan application fee is received on the basis of revolving loans or approved current account overdrafts, due to the fact that it is not possible to predict the amount and dynamics of utilization of approved funds, the fee is deferred by the pro rata method over the life of the loan and recognized as interest income.

Transactional expenses are expenses that can be directly attributed to procurement or issue of a financial asset or a liability.

Recognition of interest income to impaired loans is done on net principle, by reducing gross accrued interest for the amount of impairment of interest receivables i.e. the amount that is unlikely to be collected. Recognition of interest income from impaired loans that belong to impairment level 3, on net principle, is performed by applying the concept of unwinding, in accordance with the document of the Group member that regulates that area. Once a financial asset becomes significantly impaired, from the moment of initial recognition, it is then classified into impairment level 3 and interest income is calculated by applying an alternative unwinding concept – IRC method.

(g) Fees and commissions

Income and expenses from fees and commissions, which form an integral part of effective interest rate of a financial asset or liability, are factored into the calculation of effective interest rate.

In accordance with the Accounting Policies, if the loan application fee is received on the basis of guarantees, letters of credit, avals, discounts or factoring, it is accrued on a pro-rata basis over the life of the instrument and recognized as fee income.
In the case of a syndicated loan, it is important to distinguish the basis on which the fee was received, and if the fee was received:

- For arranger/agent service - it is recorded as fee income, does not form the part of the effective interest rate, and gets deferred over the life of the loan;
- For lender service - it is recorded as interest income, forms part of the effective interest rate and is deferred over the life of the loan using the EIR method.

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 and other banking services.

d) Net gain from change in fair value of financial instruments and net gain from derecognition of financial instruments that are measured at fair value

Realized or unrealized gains and losses based on changes in the market value of securities traded and measured at fair value through profit&loss are recognized within this item, while unrealized gains and losses based on changes in the value of debt and equity securities measured at fair value through other comprehensive income are recognized within revaluation reserves included in the Group's capital.

When derecognizing securities at fair value through other comprehensive income with recognition through profit&loss (sale or permanent impairment), appropriate amounts of previously formed revaluation reserves are presented in profit&loss as gains or losses on the basis of derecognition, while when derecognizing securities at fair value through profit&loss the previously formed amounts related to change in value are also recognized in profit&loss as gains or losses on the basis of derecognition

Gains/losses based on agreed currency clause and changes in the exchange rate of securities as well as interest income on securities other than securities at fair value through profit&loss are stated in the Profit and Loss Statement.

(dj) Dividends

Income from dividends is recognized at the moment of receiving economic benefit from dividends. Dividends are shown as part of the item other income.

(e) Tax expenses

Tax expenses include current taxes and deferred taxes. Current taxes and deferred taxes are shown in the profit&loss, except to the extent they relate to items that are directly recognized within equity or within other comprehensive income.

(i) Current corporate income tax

Current tax is the expected liability or receivables as a result of income tax for the accounting period that has been determined in accordance with the tax return for income tax, with the use of applicable tax rates or tax rates that will apply on the reporting date, with the relevant corrections of tax liability from the previous year.

Current and deferred taxes are recognized as income and expenses and are included in net profit/(loss) for the period.

(ii) Deferred taxes

Deferred taxes are determined on the basis of temporary difference between book value of assets and liabilities in the financial statements and the value of assets and liabilities for tax purpose. When determining deferred taxes we are using tax rates that are expected to be applicable at the moment temporary differences arise, on the basis of legislation that applied on the reporting date

During the business year the deferred tax assets and liabilities are recorded in standalone balance-sheet items i.e. in the current business year they are recorded on gross principle.

Deferred tax assets are recognized for all deductible temporary differences and effects of tax losses and credits that can be carried over to the following fiscal periods up to the degree to which there will probably be taxable profit that tax loss is taken from and the loans can be reduced. Deferred tax assets are the subject of analysis at the end of each reporting period and are adjusted to the amount for which 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, Group members pay different taxes and contributions, value added tax, capital gains tax and salary contributions. These expenses are included in “Other operating expenses”.

(ž) Financial instruments

A financial instrument is any contract that results in a financial asset or a financial liability of a Group member, with simultaneous occurrence of a financial liability or a financial asset of a third party.

Financial assets

Financial asset is each asset which is

- cash,
- equity instrument of another legal entity,
- contractual right for receiving cash or another financial asset from another legal entity,
- contractual right for exchange of financial assets or financial liabilities with another legal entity, under the terms that are potentially favourable,
- contract that will or may be executed by instruments of own equity and which is non-derivative, and for which the Group members are or may be obliged to receive variable number of equity instruments,
- contract that will or may be settled by the instruments of own equity and which is derivative, and which will be or may be settled other than by exchanging a fixed amount of cash or another financial asset for a fixed number of instruments of own equity

Financial liabilities

Financial liability is every contractual liability of a group member:

- to deliver cash or another financial asset to another legal entity
- to exchange financial instruments with another legal entity on terms that are potentially unfavourable.

Valuation rules for financial instruments

From the aspect of classification and measurement, IFRS 9 introduces new criteria for classification of financial assets, except for equity instruments and derivatives that are based on the assessment of a business model for managing specific financial assets and contract characteristics of cash flows of financial instruments.

Financial assets

Group members assess the targets of business models for managing financial assets on the level of portfolio, given that this assessment best reflects the manner of governing business activities and the manner of reporting to the management.

Classification of financial assets is based on applying a relevant business model for managing financial assets and the fulfilment of the test of features of agreed cash flows.

A business model determines whether cash flows stem from collecting the agreed cash flows, sale of a financial asset or both. Business model for classification of financial assets is determined at the appropriate aggregate level.

Fulfilment of the test of features of agreed cash flows means that the cash flows consist only of payment of principal and interest on the remaining principal (SPPI criterion).

Financial assets can be classified into the following categories:

- financial assets valued, and/or measured at amortized cost (AC)
- financial assets valued, and/or measured at fair value through profit&loss (FVTPL)
- financial assets valued, and/or measured at fair value through other comprehensive income, recognised in the profit&loss – "recycling" (FVOCI)
- financial assets valued, and/or measured at fair value through other comprehensive income, not recognised in the profit&loss (FVOCI).

In accordance with the classification of assets from the previous paragraph, members of the Group classify all lending from their portfolio that relates to:

- **Loans** and receivables as non-derivative financial assets with fixed or determinable repayments that are not listed on an active market and which the Group member does not intend to sell shortly,
- **Securities that are measured at fair value through profit&loss,** which represent instruments acquired for the purpose of generating profit from price fluctuation and margin.
- **Securities that include debentures and equity securities (equity instruments):**
  - Debentures include bonds and transferrable securitized debt instruments, government bills, treasury bills, commercial bills, certificates of deposit, banking acceptances, subordinated bonds and other similar debentures that are traded in financial markets.
  - Equity shares include shares that are a stake in equity of a joint-stock company and convertible bonds that grant the holder, on conditions specified in the decision on issue, the right to exchange them for ordinary shares of the company. Shares (equity instruments) include all types of stakes in equity of legal entities for which there is an intention to keep them for an unspecified period and which can be sold due to the need for liquidity or due to a change in interest rates, exchange rates or market prices.
  - Investment in subsidiaries that ensure control i.e. over 50% of controlling rights and investments in affiliated legal entities that allow for 20% to 50% of controlling rights and
- **Financial derivatives** that include forward and swap transactions.

(z) Cash and cash equivalents

Cash posted in the Report on Cash Flow includes cash in the drawing account in dinars, cash in hand in dinars and foreign currency, other monetary assets if they can be recognized as cash equivalents and precious metals, if they are directly cashable within a short period.

Cash equivalents include short-term, highly liquid investments that are quickly converted into known amounts of cash and that are subject to insignificant effect of the risk of change in value.

(i) Property and equipment

(i.1) Recognition and valuation

Property and equipment are tangible items that are held for use for business purpose in relation to which it future economic benefits are expected in the period longer than one accounting period.

Items in the property and equipment are recognized if the following conditions are met:

- probability that future economic benefit will be realized in the period longer than a year, and
- possibility of reliable measurement of the cost of obtaining.

Initial measurement of property and equipment is done at purchasing value of cost prices.

Purchasing value includes expenses that can be directly attributed to the procurement of assets. Subsequent investment into property and equipment, that improve the balance of assets above its initially estimated useful life can be capitalized so to increase the purchasing value of property and equipment.

After initial recognition, equipment is valued at purchasing value reduced by the total accumulated depreciation and total accumulated losses due to decrease in value.

After the initial recognition, property is valued at revaluation amount that is their fair value on the revaluation date reduced by the subsequent accumulated depreciation and subsequent accumulated losses due to depreciation. Revaluation is performed regularly enough in order to ensure that the book value does not differ significantly from the value that we would arrive at by using fair value at the end of the reporting period.

When parts of property or equipment have different useful lives, they are recorded as standalone items (key components) of the equipment.

Profit or loss from disposal of property and equipment are calculated as a difference between the value realized by their sale and their book value and are shown as part of other income or expenses.

(i.2) Subsequent expenses

Cost of replacing an integral part of any fixed asset are recognized as part of carrying value of that fixed asset if it is probable that future economic benefit related to that integral part will arrive to the Group member and if the cost price of that part may be measured reliably. Carrying value of the replaced part is derecognized. The cost of regular servicing of property and equipment is recognized in the profit&loss when occurred.

(i.3) Depreciation

Depreciation is recognized in the profit&loss in equal annual amounts during the estimated life of each item of property and equipment, given that this manner best reflects the expected consumption of the useful economic value contained in the asset.

Depreciation is calculated at rates that ensure compensation of the value of property and equipment during their useful life in accordance with the document that regulates this area.

Applied depreciation rates in the current and previous accounting period are:

Description	Estimated useful life (in years)	%
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 – 15	6.70% - 50.00%
Investment in others' fixed assets	1 – 23.5	4.25% - 86.20%
Fixed assets held under a lease	1.1 -14.9	6.70%–92.31%

The basis for depreciation consists of procurement or revaluation value of property and equipment, reduced by the estimated residual (remaining) value.

The method of depreciation, useful life and residual value are valued at the end of each reporting period and are corrected, when needed.

The costs of maintaining an asset is recognized in the profit&loss for the period in which it occurs.

(i.4) Leasing assets

In accordance with IFRS 16, as a lessee, the Group recognizes the leased asset with a right of use and leasing liability at the effective date of the lease. Lease commencement date is the date on which the leasing entity makes the underlying asset (i.e. the leased asset) available to the lessee.

As the lessees, the Group members initially (at the effective date of the lease) and subsequently, measure the value of the asset with a right of use at acquisition value, as follows:

The acquisition value is subsequently reduced by:

- Accumulated depreciation (whereby depreciation is calculated on a pro rata basis) and
- Accumulated impairment losses in accordance with IAS 36.

(j) Intangible assets

Intangible asset is an asset that can be identified as a non-monetary one, without physical essence and which meets certain criteria from the IAS when it is:

- separable, it is possible to separate it and sell it, rent it or exchange it,
- it originated as a result of contractual or other legal rights, regardless of whether those rights are negotiable or separable from the Group members or other rights and obligations.

Intangible assets are initially valued at purchase value or cost price that consists of the purchasing value increased by direct expenses necessary for using an asset.

After the initial recognition, intangible assets are measured at purchasing value reduced buy accumulated depreciation and all accumulated losses resulting from impairment.

Internal expenses connected to an intangible item, including also the expenses arising as a result of research and development are recognized as an expense in the period they occurred, unless they form a part of purchasing value of another property item that meets the conditions for recognition. In that case, internal expenses increase the purchase value of property.

Depreciation is shown in profit&loss in equal annual amounts during the estimated life of the given item of intangible investment, given that this best reflects the expected consumption of useful economic value contained in an asset. Estimated useful life of intangible assets is 3 to 10 years i.e. depreciation rates range between 10.00% and 33.34%.

Depreciation method, useful life and residual value are estimated at the end of each reporting period and are corrected when needed

(к) Investment property

Investment property is the property (land, building or a part of a building) that Group members hold with the aim of generating revenue from rent or increase in the value of capital or both, and not for sale in the regular course of business or for use for administrative purpose.

Initial valuation of investment property is done at purchase value i.e. the cost prices. Purchasing value of an investment property includes its sale price and all the expenses that can be directly attributed to the purchase of an asset.

For subsequent valuation of investment property, Group members use a purchase value model i.e. investment property is valued at purchase value reduced by accumulated depreciation and loss due to impairment.

Estimated life of investment property is 40 years and depreciation is calculated at the rate of 2.5%. Depreciation is shown in the profit&loss in equal annual amounts during the estimated life of the property item, given that this best reflects the expected consumption of the useful economic value contained in the asset.

Investment property is converted into other types of property once its purpose changes, on the basis of an accounting document that proves this change.
Investment property is derecognized once it is disposed of or if no future economic benefit is expected of its use and disposal.

Difference between the carrying value and sale value of investment property that is being sold is recognized in the profit&loss in the period in which it occurred.

(l) Assets acquired through collection of receivables and assets held for sale

Assets whose carrying value can be regained through a sale transaction and not through continued use are classified as non-current assets held for sale.

Valuation of non-current assets available for sale is performed at a lower of the following two values: carrying value or fair value reduced by the cost of sale. In case an asset is not sold within a year after the initial recognition, the carrying value is adjusted to the fair value of non-current assets intended for sale, and adjusted if the assets are impaired in the sense of a decline in recoverable value. Effects of these adjustments are recognized as cost of the period.

For non-current assets intended for sale depreciation is not calculated.

Collection of receivables by foreclosing on movable and immovable property, in case when receivables are secured by mortgage, trust deed, pledge of movables or some other type of security, is performed on the basis of a court decision and/or sale contract arising from an out-of-court settlement or an auction.

Movable and immovable foreclosed assets are recognized in the accounting books as stocks of foreclosed assets with the intention to sell them within a year.

They are initially valued at a value that is lower than:

- gross value of receivables on the basis of which property is acquired or
- estimated value of property (not older than a year) reduced by the cost of sale.

Exceptionally, when the property is acquired as a result of a court decision in the amount that tis lower than the gross value of receivables, the property is valued at the value from the court decision. Also, the acquired property is valued within the shortest possible period, no later than at the end of the current year.

In case the contracted value of property that is acquired in an out-of-court procedure is higher than the value of total receivables, the difference is recognized in books as a liability at the moment of sale. Terms and the manner of settlement of a liability are specified in the sale contract.

After the initial recognition, the carrying value is adjusted to fair value of foreclosed assets, as well as an adjustment if the assets are impaired in terms of a decline in recoverable value. Effects of these adjustments are recognized as expenses of a period. Adjustment of fair value of foreclosed assets is performed in the same manner as for assets intended for sale.

For foreclosed assets and assets intended for sale, Group members apply the procedures of obligatory valuation of fair value before the process of sale.

(lj) Leasing liabilities

The Group has been applying the rules for classifying contracts according to IFRS 16 since January 2019. IFRS 16 defines the initial recognition, measurement and disclosure of leases to both parties to a contract, that is, the lessee and the lessor.

As the lessee, the Group should combine two or more contracts concluded at or near the same time with the same counterparty (or related parties of the counterparty), and settle the contracts as a single contract, if the contracts are negotiated as a package with a general commercial objective, which cannot be understood without their mutual consideration, the amount of compensation payable in one contract depends on the price or execution of another contract or the right of use of the fixed assets transferred by these contracts (or some rights of use of a fixed asset transferred by each individual contract) form an integral component of the lease.

The lessee, initially (at the commencement date of the lease) and subsequently, assesses the value of the leasing liability as follows:

Initially, by the current value of future lease payments that will be made during the leasing period, and includes:

- Current value of leasing instalments and
- Current value of expected payments at the end of the lease agreement

In calculating the current value of a lease payment, three parameters must be determined: the lease period, the lease payment and the applicable interest (discount) rate.

Accordingly, the lease liability is accumulated using an amount that gives a constant periodic discount rate to the remaining liability amount (i.e. the discount rate is set at the beginning of the lease period until revaluation that requires a change in the discount rate). Paying a lease reduces the leasing liability once it is paid up.

Subsequently, the Group measures the value of the lease liability, also at the current value of future lease payments that will be made during the lease term, as follows:

- Increasing the current value of future lease payments from the previous period by interest expense using the effective interest method, through applying the discount rate determined at the beginning of the leasing period (if it has not subsequently changed) and
- Reducing by lease payments that have already been made.

(m) Impairment of non-financial assets

Accounting value of non-financial assets, except for investment property and deferred tax assets is analysed at the end of each reporting period in order to determine if there are indicators that point out to their impairment. In case it is determined that there are certain indicators of impairment, recoverable value of an asset is established. Loss from impairment is recognized if the book value of an asset exceeds its estimated recoverable value.

Recoverable value of an asset is determined as a value that is higher than the useful value of an asset and its fair value. For the purpose of establishing the useful value, the estimated future cash flows from the asset are discounted to their present value by applying a discount rate before tax that reflects the current market estimate of the time value of money as well as the risk specific for that asset.

Loss from impairment is recognized in case the book value of an asset is higher than its recoverable value. Loss from impairment is recognized in profit&loss.

Loss on the grounds of impairment from previous periods is estimated at the end of each reporting period, in order to define if there was a decrease in losses or if they still exist. Loss on the grounds of impairment is cancelled in cases where changes occur with regards assumptions used to determine the reimbursable values of the funds. Loss on the grounds of impairment is cancelled only in the amount of the value that does not exceed the book value which would be determined, decreased by the funds depreciation, in case there is no recognition of losses on the grounds of impairment.

(n) Deposits, loans and subordinated liabilities

Deposits, debt securities, loans and subordinated liabilities represent the basic funding sources for the members of the Group.

Members of the Group classify financing instruments as financial liabilities or as capital in accordance with the subject of the contracted terms for a concrete instrument.

(nj) Provisions

Provision is a liability which is uncertain in terms of deadlines and amounts. Provision represents the best estimate of expenditures required to settle the current liability on the date of the balance.

Provisions are recognised when:

- There is a liability (legal or actual) which occurred as a result of a previous event,
- There is certainty of an outflow of the funds which will follow the settlement of liabilities and
- The amount of the liability can be estimated with certainty.

Provisions are recognised in cases when it is expected that the member of the Group, as a result of the previous events, will have the legal and performed liability which can be reliably determined and the settlement of which is expected to cause the disbursement of resources, which represent the economic gains for the Group member. Provisions are determined by discounting the expected future cash outflows, by using the discount rate before tax which reflect the current market assessment of the time value of money, and where appropriate, liability-specific risks.

Members of the Group perform long-term provisions for:

- potential losses for undertaken potential liabilities,
- potential outflows by court disputes,
- payment of salary of employees on the grounds of future liabilities and
- other potential liabilities which meet recognition terms, pursuant to the IAS/IFRS and internal documents of the members of the Group.

(o) Financial guarantees

Financial guarantees represent contracts as per which the members of the Group are obligated to perform payments to their beneficiaries for losses which are incurred due to failure of fulfilment of payment obligation by the specific debtor on the maturity of the liability and pursuant to the terms of the debt instrument.

Liabilities as per financial guarantees are initially recognised at fair value which is depreciated over the duration of the financial guarantee. Liability under the guarantee is subsequently measured in the amount larger than the depreciated value and the current value of the expected future payments (when payment to be performed under the guarantee is probable). Financial guarantees are recorded in the Off-Balance Sheet items.

(p) Capital and reserves

The total Capital of the Group included the share capital, share premium, reserves from profit, and other reserves, revaluation reserves, accumulated results and the result of the current period.

The capital of the Group includes the share capital and the share premium of the Group. The share capital of the Group is formed from the initial deposits of the shareholders and subsequent issues of new shares.

The Capital of the Group is formed from the invested funds of the founder of the Parent Bank and the minor founder of the Komercijalna banka a.d. Banja Luka. The founder may not withdraw funds invested in the Capital of the Group.

(r) Earnings per share

The Parent Bank presents the basic and the reduced earnings per share for own ordinary shares. The basic earnings per share is calculated by dividing the profits or losses which belong to the holders of ordinary shares of the Parent Bank weighted by the average number of ordinary shares circulating during the period.

Reduced earnings per share is calculated by dividing the corrected profits or losses which belong to the holders of ordinary shares for effects of preference, convertible shares, weighted by the average number of ordinary shares circulating during the period.

(s) Reporting by segments

The Business Operations segment is part of the Group - Member of the Group, which performs business operations independently which may generate income and incur costs, including income and costs generated from the transactions with other Members of the Group, whose business results are regularly controlled by the Management of the Parent Bank (as the main operating decision-maker) in order to make decisions on the allocation of resources per segments and asses their results. For segments of the Group’s business operations standalone financial statements are available.

4. RISK MANAGEMENT

The banking Group has recognized risk management process as the key element of business management given that risk exposure is an inseparable part of banking and is managed through a process of continued identification, measurement, evaluation, monitoring, control and mitigation, or the establishment of risk limits, including reporting in accordance with adopted 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 system of internal controls, adequate information system and adequate process of internal capital adequacy assessment.

Risk management process involves clear determining and documenting the risk profile and its adjusting to the Group's preference for risk and risk tolerance, in accordance with the adopted strategies and policies.

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 common equity Tier 1, Tier 1 and total capital adequacy, maintaining the participation of risky placements (NPL) in total loans at the acceptable level for the Group, maintenance of liquidity coverage ratios above the regulatory prescribed and internally adopted limits, the development of the Group's activities in accordance with the business strategy, opportunities and market development in order to achieve competitive advantages. The objectives of risk management are in line with the Group's business plan.

In view of the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management process, as well the external auditor's requirements, adequate changes were made in the internal acts regulating risk management at the banking Group level during the first half of 2020.In view of the changes in the regulations of the National Bank of Serbia, as well as regulators in the markets in which the banking Group subsidiaries operate, the need to further improve the risk management process, external auditor requirements and the new situation caused by the COVID-19 pandemic, the banking Group internal risk management acts are changed.

Risk Management System

The risk management system is defined by the following internal acts:

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

Risk Management Strategy defines:

- Long-term objectives, defined by the banking Group's business policy and strategy and its risk propensity and risk tolerance set in line with those objectives;
- Basic principles of risk transfer and management;
- Basic principles of the internal capital adequacy assessment process of the Group; and
- Overview and definitions of all types of risk the Group is exposed to or may be exposed to.

Additionally, Risk Management Strategy defines criteria for identification, as well as basic principles for management of non-performing assets and maximum acceptable level of non-performing assets for the Group.

The banking Group specified the basic principles of risk management for meeting its long-term objectives:

- Organizing operation of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular operating activities of the Group;
- Comprehensive risk management;
- Effective risk management;
- Cyclic risk management;
- Developing risk management as a strategic orientation; and
- Risk management as a part of corporate culture.

Principles of management of non-performing assets, i.e. risky placements include the following:

- Active management of risky placements;
- Preventive measures and activities with the aim of minimization of further deterioration of assets quality;
- Definition of non-performig assets management strategy – set of activities and measures with the aim of recovery of debtor's financial position or initiation of corresponding enforced collection procedures;
- Early identification of the debtors who face financial difficulties or are in arrears or in default (Watch list);
- Assessment of financial condition of the borrowers;
- Set of indicators for inclusion of the debtors within the scope of organizational unit which is responsible for management of non-performing assets;
- Segmentation of non-performing assets;
- Materiality principle for definition of possible measures;
- More frequent monitoring of collaterals value and property acquired through collection of receivables;
- Organizational separation of Sector for prevention and risky placements management;
- Involvement of risky placements monitoring indicators in corporate governance and risk management processes;
- Transparent reporting.

Policies for managing certain risk types define the following:

- Manner of organizing risk management processes within the banking Group and clear division of personnel responsibilities in all stages of the process, including non-performing assets, i.e. risky placements management process ;
- Manner of assessing the banking Group's risk profile and methodology for identifying, measuring and assessing risks;
- Manners of risk monitoring and control and establishing the system of limits, i.e. types of limits the banking Group uses as well as their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of exceeding is possible within the legal framework;
- Measures for risk mitigation and rules for implementation thereof;
- Manner and methodology for implementing the internal capital adequacy assessment process of the banking Group;
- Principles of the system of internal controls functioning; and
- Framework and frequency for stress testing and procedure in instances of unfavorable test results.

Procedures for managing certain risk types define, in greater detail, the process of managing risks and competencies and responsibilities of all organizational units of the parent Bank and banking Group members in the risk management system.
Individual methodologies further and in more detail prescribe methods and approaches used in the risk management system.

Competencies

The Board of Directors is authorized and responsible for establishing a uniform risk management system and for monitoring such system, adopting policies and procedures for risk management and capital management strategy, establishment of internal control system, supervision of the work of the Executive Board and execution of the process of internal capital adequacy assessment.

The Executive Board is authorized and responsible for implementation of risk management strategy and policies, capital management strategy adoption and efficiency analysis of risk management procedure implementation, which define processes of identifying, measuring, minimizing, monitoring, controlling reporting risk the parent Bank and the Group are exposed to. Also, the Executive Committee analyzes the risk management system, and at least quarterly reports to the Board on the level of risk exposure and risk management and decide, with the prior approval of the Board of Directors, of any increase in the Group's exposure to an entity related to the Group and shall notify the Board of Directors.

The Audit Committee is authorized and responsible for continued monitoring of application and adequate implementation of risk management policies and procedures, and for implementing the internal control system of the parent Bank and the Group. The Audit Committee at least monthly reports to the Board of Directors on its activities, irregularities, and propose how they will be removed, proposes improvement of policies and procedures for risk management and implementation of the internal control system.

The Asset and Liability Committee (ALCO) is authorized and responsible for monitoring the risk exposure resulting from the structure of the receivables, payables and off-balance sheet items, and proposes measures for managing interest and liquidity risks. Each Group member has its own Asset and Liability Committee.

The Credit Committee decides on loan requests, as well on treatment of non-performing loans, in accordance with the parent Bank's internal acts, it analyzes the parent Bank's exposure to credit, interest rate and currency risk, it analyzes the credit portfolio and also suggests adequate measures to the parent Bank's Executive Board. Each Group member has its own Credit Committee, which makes decisions within its remit and limits.

The Risk Management Function of the parent Bank defines and proposes for adoption the risk management strategy, policies, procedures and methodologies, identifies, measures, mitigates, monitors, controls and reports on the risks the parent Bank and the Group are exposed to. It is also in charge of developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent banking Group's bodies.

The parent Bank's Asset Management Division is responsible for managing assets and liquidity, as well as assets and liabilities on the Group level. It also participates in the liquidity risk management and interest rate and currency risk management.

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 on its findings and recommendations is reported by the Audit Committee and the Steering Committee.

The Compliance Function is obligated to identify and assess at least annually the risks of compliance of the operations of the parent Bank, as well as the Group member, and propose risk management plans, on which it draws up a report that is submitted to the Executive Board and the Board for monitoring the operations of the parent Bank.

Risk Management Process

The banking Group regularly measures and evaluates risks identified in its operations. Measurement entails applying qualitative and quantitative measurement methods and models that enable detection of changes in risk profile and assessment of new risks.

For all risks identified the banking Group determines their significance based on as comprehensive assessment of risks in the banking Group's particular operations, products, activities and processes.

Risk alleviation or mitigation involves risk diversification, transfer, minimization and or avoidance; the banking Group performs risk mitigation in accordance with its risk profile, risk appetite and risk tolerance.

Risk monitoring and control is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established by the banking Group, 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 within the Group organizational structure to provide timely, accurate and sufficiently detailed information needed to make business decisions and efficient risk management, that is, secure and stable operations.

Risk Types

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

4.1. Credit Risk

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

During 2020, a extraordinary aspect of credit risk management is the conditions caused by the COVID-19 pandemic, which are completely different compared to the previous business circumstances faced by the corporate and financial sector.

The Group members have defined criteria for loan approval and rescheduling and restructuring of receivables prescribed by its loan approval procedures and methodologies.

Prior to loan approval, each Group member assesses the creditworthiness of the borrower based on internally defined criteria as a primary and offered collateral as a secondary source of collection/loan repayment. Based on the identified and measured credit risk level (assessed financial situation and credit worthiness of the borrower, value and legal security of the credit hedge and other relevant factors), and independent risk assessment, the competent authorities, committees and the Group member's competent bodies enact a loan approval/change decision in accordance with the defined decision making 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: specially authorized personnel from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors.
In decision making the principle of double control, the so-called "four eyes principle," is observed which ensures that there is always a party that proposes and a party that approves a particular loan/investment.

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, on the other. Members of the Group have established an adequate information system that includes full information of persons involved in the credit risk management system, as well appropriate reporting of management bodies.

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

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

The basic principles of credit risk management are as follows:

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

In their effort to manage credit risk all Group members seek to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Group members assess creditworthiness of each customer upon the submission of a loan application and regularly monitor their debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting their receivables.

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

The rating system is not merely an instrument for encasement individual decisions and assessing risk levels of individual investments; it is also a basis for portfolio analysis, support in loan approval and loan impairment procedure as well as in estimating provisions against losses per off-balance sheet items for the purpose of loan and investment ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

For adequate and efficient management of the risks they are exposed to, the parent Bank and Group members also comply with the principles prescribed by their respective central banks, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses.

Credit risk mitigation entails maintaining the risk at the level acceptable to the Group's risk profile, i.e. maintaining acceptable quality level of the Group's loan portfolio.

Basic credit risk mitigation techniques are:

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

The exposure limits per individual debtor are based on the assessment of the debtor's credit- worthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Group members continuously control credit risk movements within a defined risk profile.

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

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 Plans of the banking Group members, regularly reviews the defined limits and proposes redefinition of these in the event of a change in risk factors.

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 prescribed the banks obligation 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 contractual maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

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

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

As a hedge against counterparty default risk, the Group members undertake the following steps in respect to collection of due receivables: prolongation of repayment; loan rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; execution of agreements with interested third parties; and instigation of court proceedings and other measures.

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

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

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

- the Group members report to the parent Bank on a monthly basis;
- the parent Bank reports on a consolidated basis, semi-annually and annually.

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 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).

The Group's business model is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the 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 at amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

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

Also, by applying IFRS 9, the Group calculates impairment for credit placements given to the countries and central banks of the Group 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 income.

Identification of problematic and restructured claims

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

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

Additionally, due to the new situation caused by the COVID-19 pandemic, for clients classified in stage 1 and 2, an additional overlay of impairment was introduced, with an increase in the number of clients classified in stege 2, as a result of credit risk of the client analysis in new circumstances.

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

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

Problematic claims include all the claims that are late in settling obligations over 90 days past due per any materially significant obligation towards the Bank (parent company) or subsidiaries, claims for which based on assessed financial position is estmated that the borrower will not be able to meet its obligations in full, without taking into account the possibility of realization of credit protection instruments (regardless of whether it is late in settlement of liabilities), claims for which the impairment loss is determined on an individual basis. Claims are also considered to be problematic if these fulfill the following: the bank puts interest income and commission and fees income owed by the borrower on non-accrued status in the income statement; the bank recognises a specific adjustment for credit risk resulting from a significant perceived decline in credit quality subsequent to the bank taking on the exposure; the material loss created by the sale of the obligation; restructuring of claims due to financial difficulties of the borrower; the bank has submitted a proposal for the obligor’s bankruptcy. Problematic receivables include all receivables from debtors, if one claim is classified in the group of problematic claims.

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

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

In accordance with the application of IFRS 9, 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.

Wirh each change in credit conditions, for the clients’ placements that are not designated as problematic (PL), as well as for bad (NPL) clients, the Group calculates a 10% test in order to determine whether it is a significant or less significant modification.
Group members record any assets’ modification in the system, whether there is a significant or less significant modification, and whether the modification is due to a change in market conditions for good (PL) clients or due to poor business operating of non-performing (NPL) clients.

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

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

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

Risk of asset quality change

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

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

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

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

Risk of asset value change – asset delinquency

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

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

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

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

The Group members assess allowance for impairment of receivables on an individual and on a group basis.

Individual and Group Assessment in Stage 3

Each Group member assesses impairment of each individually significant loan with default status (risky placement, risk subcategories 4D, 4DD and 5, according to internal rating system), that is loans that are classified into Stage 3 in accordance with IFRS 9. This assessment also includes consideration of the financial position of the loan beneficiary, sustainability of its business plan, its ability to improve performance in the event of financial difficulties, income projections, availability of other financial support and collateral value which can be realized, as well as scheduling of expected cash flows. In the event of new information coming to light that significantly alters the customer's creditworthiness, value of collateral and likelihood that liabilities toward the Group member will be settled, ad hoc assessment of loan impairment is performed.

The threshold of materiality, the Group members determine based on the analysis of value structure of their portfolios by customer and product.

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

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

- When the financial position of the borrower points to significant problems in its business;
- When there are information on default, frequent delay in repayment or non-fulfillment of other contractual clauses;
- When a member of the Group, due to the financial difficulties of the borrower, significantly changes the repayment conditions in relation to initially contracted;
- The borrower can not settle its obligations in total without the realization of the collateral;
- Continuous account blockade 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 the borrower) and similar.

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

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 are objective evidence, the amount of the impairment is estimated 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 assessing the expected future cash flows in accordance with IFRS 9. On this occasion, scenarios that can be considered are business scenarios (restructuring/agreements and the like), scenario from the collateral realization (extrajudicial/judicial/bankruptcy and other) and the sale of receivables. The probability of a certain scenario of a member of the Group is guided by the history of the realization and collection of problematic cases, the specifics of an individual client, as well as the forecasting of future possible outcomes and, accordingly, it assigns the appropriate weights to each scenario, which must be 100% in the sum of all scenarios.

For a group of smaller material receivables that are classified as Stage 3, when calculating the impairment, there are also several collection scenarios that are applied with certain probabilities, where these probabilities are calculated on the basis of statistical models using historical collection information.

Group Assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and are classified as 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 banking Group members and other exposures with a credit risk weight of 0, in accordance with the Decision on Capital Adequacy of Banks, except for the exposure on the reserve requirement and similar exposures, on the basis of which the expected credit losses approach to 0.

All financial instruments in which significant increase in credit risk has been carried out are classified into Stage 2 and impairment costs are calculated on the basis of expected credit losses for the entire life of the instrument. In addition to qualitative and quantitative significant increase in credit risk criteria for classification in stege 2, due to the conditions caused by the COVID-19 pandemic, the parent Bank reclassified a certain number of clients from the activities which are most affected by the COVID-19 pandemic (catering, tourism, transport ...) for the purpose of preventive action and realistic consideration of impairment, having in mind the possible negative consequences of the COVID-19 virus pandemic on the business of clients from the listed activities. This was done through the analysis of the portfolio structure by activities, as well as 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 that were estimated to be, or could be, exposed to the effects of the COVID-19 pandemic, although they did not meet the previously defined criteria for transfer to stege 2 in accordance with IFRS 9, were immediately classified in stege 2. Also, private individuals who are employed in the non-governmental and non-public sector and who are not pensioners were analysed. If the decrease or lack of earnings has been identified for those clients, the transfer of such clients to stege 2 has been performed. Consequently, impairment was calculated for these clients for the loan life time.

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, delay of more than 30 days past due, and the like).

In 2020, the Group members improved the Impairment Assessment Methodology in terms of the possibility of calculating and allocating an additional overlay of impairment, or developing and applying a more number of possible scenarios, in order to adequately include effects of COVID-19 on credit risk impairment.

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

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

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

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

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

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

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

For the calculation of EAD for Stage 1, the 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, separately for 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 purposes of inclusion of forward looking information (FLI), the Group includes three different macroeconomic variables' movements scenarios in the calculation of Beta factor (optimistic, realistic and pessimistic), with the subsequent weighting with the corresponding probabilities of realization of each scenario, in order to obtain the final Beta factor which comprises all of three scenarios (optimistic, realistic and pessimistic).
Within the annual Strategy and Business Plan process, each the banking Group members project the values of macroeconomic factors for the period of the next three years, taking into account the characteristics of the markets in which they operate. When defining macroeconomic assumptions, the Group members use a set of different relevant external sources, as well as internal estimates.

In addition to the direct effects of the COVID-19 pandemic through the deterioration of macroeconomic expectations on the level of impairment of Group, it was necessary to include additional expert assessments in the level of credit risk impairment, in order to adequately reflect the estimated effects of the potential crisis. The inclusion of expert assessments was done through the allocation of an additional overlay of impairment for credit risk. This was realized through the assumption of worsening of the predicted default rates, obtained by econometric models, by depicting the assumed form of the expected crisis (a combination of curves V and U shapes, which are characterized by smaller effects during 2020, to 2021 negative effects increased, with an expected recovery in 2022).
Similarly, an additional overlay is included or through projected default rates in the case of Group subsidiaries.

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

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

PD parameters are updated semi-annually (for the dates of June 30 and December 31) and are applied in the next half of the year, except for December 31 when PD parameter is applied as of December 31. Exceptionally, the update of PD for the second half of the year is done for the date June 30 with the data as of May 31 of the current year with the application of an additional overlay of credit risk impairment in order to include the effects of the COVID-19 pandemic.

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.

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 surveys and external rating data of Moody's agency. It then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation. The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

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

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

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

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

Assessment of Provisions for Probable Losses 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 sheet items, the Group reduces exposure for the Credit 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 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 (collaterals)

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

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

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

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

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

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

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

Regular monitoring of real estate involves checking the value of real estate on the basis of available data and information, the comparison of the value of the real estate from portfolio with movements in the market value in the Group members country market (realized sales, supply and demand) by the regions listed in the catalog of collateral, the use of statistical models, etc. For all the commercial real estates, the Group members conduct verification of value at least once a year, and for residential and other real estate at least once every three years.

The value of the collateral and the tendency of movement of it's value, the Group members monitor and update to reduce the potential risk of unrealistic valuation to a minimum, and, if necessary, it may request additional collateral in accordance with the agreement. Collateral represent a secondary source of collection of receivables.

4.2. Liquidity Risk

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

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

Liquidity risk is manifest as the mismatch of the inflow of assets on one end and the maturities of liabilities on the other, including the possibility of delays in expected inflows as well as that of unexpected outflows. Liquidity risk may be manifest as the risk related to sources of funds and market liquidity risk. The problem of liquidity in respect of the sources of funds relates to the structure of liabilities and is expressed through potential significant share of unstable and short-term sources of funds or their concentration. On the other hand, liquidity risk is reflected in reserves deficiency and difficulty or inability to obtain liquid assets at reasonable market prices.

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

In order to minimize liquidity risk, the Group:

- Diversifies sources of assets in respect to their currencies and maturities;
- Forms and maintains sufficient liquidity reserves;
- Manages monetary funds;
- Monitors future cash flows and liquidity levels on a daily basis;
- Limits principal sources of credit risk with most significant impact on liquidity; and
- Defines and periodically tests Plans for Liquidity Management in Crisis Situations.

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

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

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

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

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

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

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

The Group's operations are reconciled daily with legally prescribed limits of liquidity ratio as follows: minimum 0.8 for one working day; minimum 0.9 for no longer than three consecutive working days and minimum 1 as the average liquidity ratio for all working days in a month, as well with limits of narrow liquidity ratio as follows: minimum 0.5 for one working day; minimum 0.6 for no longer than three consecutive working days and minimum 0.7 as the average liquidity ratio for all working days in a month. During the first half of 2020 the Group maintained the liquidity coverage ratio (LCR) cumulatively in all currencies, at the level which is not below the regulatory prescribed limit of 100%.

During the first half of 2020 the Group's liquidity ratio, narrow liquidity ratio and liquidity coverage ratio were well above the prescribed limits.

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

As observed in short term, the Group manages liquidity risk by monitoring and controlling items in all major currencies in order to identify the needs for additional funding in a timely manner in case of maturities of certain items, i.e. in the long term, the Group plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves. The Group's management believes that adequate diversification of the deposit portfolio per number and type of depositors as well as historical experience provide a solid basis for existence of a stable and long-term deposit base, i.e. no significant outflow of funds is expected thereof. The Group regularly tests the Liquidity Contingency Plan (LCP), checks the survival period and solvency, availability of funding for liabilities that could arise and assesses the support under the assumed crisis conditions.

Undiscounted cash flows arising from the items of monetary assets and monetary liabilities include future cash flows per balance sheet items and future interest. In the case of transaction deposits and demand deposits, which, observing the conservative approach, are categorized into deposits with maturities of up to a month, the undiscounted cash flows include only the cash flows from the debt principal outstanding.

Market Risks

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

The Group is exposed to price risk, interest rate risk, currency risk, counterparty risk and risk of settlement related to trading book items. The trading book contains balance sheet and off-balance sheet assets and liabilities related to financial instruments held for trading or to hedge other financial instruments that are maintained in the trading book.

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

4.3. Interest Risk

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

The Group manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

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

During the first half of 2020 the Group's interest rate risk ratios were within internally prescribed limits.

Interest rate risk GAP report of monetary sub-balance includes monetary balance items distributed according to the shorter of period of interest rate repricing and maturity outstanding. In accordance with the aforesaid, the conservative assumption is used that all transactions and demand deposits will be withdrawn within one month.

The Group's management believes that appropriate matching of items per interest rate type and interest rate repricing period constitutes a solid prerequisite for the interest rate risk GAP balancing with the required financial results achieved and maintenance of economic value of equity.

The Risk of Changes in Interest Rates

In addition to the GAP analysis, interest rate risk management also entails monitoring the sensitivity of the Group members assets and liabilities to different scenarios of changes in interest rates. The Group performs regular interest rate risk stress testing to assess the estimated impact of the changes in the key factors on the Group's interest rate risk.

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

In scenario modelling, in addition to the changes in interest rates, particular consideration is given to the impact of early deposit withdrawal and early loan repayment, which the Group members estimate based on historical trends and expert estimates. The Group estimated trends with regard to transaction deposits, demand deposits and savings deposits of retail customers using time series statistical modeling.

4.4. Foreign Currency Risk

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

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

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

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

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

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

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

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

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

Reporting on foreign currency risk includes internal and external reporting systems and is performed on a daily basis in accordance with the predefined dynamics, in line with the established reporting system.

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

Ten-Day VaR

The Group also conducts foreign currency risk stress testing to estimate the potential effects of specific events and/or changes in more than one financial variable on the Group's financial result, capital and the currency risk ratio.

The VaR represents the highest possible loss in the Group's portfolio during a specified period with a predefined confidence interval. The Group calculates a one-day and a ten-day VaR parameter and stress VaR parameter, with a 99% confidence interval for foreign currency positions (currency VaR). In order to estimate the regulatory capital adequacy requirements regarding foreign currency risk, the Group calculates the VaR by using the generalized autoregressive-conditional heteroskedastic (GARCH) model.

Currency VaR is calculated for foreign currency denominated positions, as well for foreign currency clause indexed positions, in the banking book and trading book.

4.5. Operational Risk

The banking Group members monitor operational risk events daily and manage operating risks. For the purpose of efficient operational risk monitoring, the banking Group members appoint employees who are in charge of operational risk management with the objective of monitoring operational risk in its every organizational part, where such employees are responsible for accuracy and timeliness of information about all operational risk events that occur in their organizational unit, as well as for keeping records about all such events in the operational risk database. The organizational parts of the banking Group members, which are responsible for risk management, monitor and report on operational risks.

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

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

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

With the objective of smooth and continued operation of all significant systems and processes in the Group, and to limit losses that could be incurred in extraordinary circumstances, the banking Group members adopted the business continuity plans, in order to ensure the restoration and recovery of the information technology systems in the event of interruption or stoppage of operations. The banking Group members adopted the Disaster Recovery plans.

4.6. Investment Risks

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

4.7. Exposure Risk

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

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

- Exposure to a single entity or a group of related entities cannot exceed 25% of the Group’s regulatory capital;
- The aggregate amount (sum) of the Group’s large exposures cannot exceed 400% of the Group’s regulatory capital.

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

The Group’s exposure to a single party or a group of related parties, as well as exposure to the Group’s own related parties, are within the prescribed limits.

4.8. Country Risk

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

- Political and economic risk relates to the likelihood of losses due to the inability to collect the Group's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;

- Transfer risk relates to the probability of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

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

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

4.9. Fair Value of Financial Assets and Liabilities

Fair values of loans and receivables due from customers are estimated using the discounted cash flows model in instances of loans and receivables at fixed interest rates. Discounts rates are based on the current market interest rates applied to instruments offered under similar terms to borrowers with similar credit ratings. In addition, liabilities due to customers with defined maturities and contracted at fixed interest rates are discounted taking into account the prevailing terms according to the deposit types, terms and maturities.

Loans that are no longer approved and cannot be approved (loans indexed to CHF) are discounted at the same interest rates. In addition, loans approved at fixed interest rates subsidized by the Government were discounted at the same rate since the Group would not have approved loans at low interest rates had the Government not subsidized portion of the interest rate. All loans and receivables approved at variable interest rates were approved in accordance with the prevailing market terms and the banking Group members' business policies.

Fair values of investment securities held to maturity are estimated using market prices or the discounted cash flows model based on current market interest rates applied to similar product instruments offered. Investment securities held to maturity have all matured resulting in the carrying values being equal to their fair values.

Stage 1 includes financial instruments traded in the stock exchange, while Stage 2 includes securities whose fair values are estimated using the internally developed models based on the information from the auctions held in the secondary securities market (auctions).

Fair values of assets with no directly available trading data are classified into Stage 3.

4.10. Capital Management

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

The calculation of the amount of capital and capital adequacy ratio is reconciled with the Basel III Standard starting from June 30, 2017.

Basic goals of capital management are:

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

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

Capital adequacy ratio		**(000) RSD**
	30.06.2020.	**31.12.2019.**
Tier 1 (T1) Capital	70,487,793	67,653,138
Common Equity Tier 1 (CET1) Capital	70,114,283	67,279,628
Additional Tier 1 (AT1) Capital	373,510	373,510
Tier 2 (T2) Capital	-	-
Deductible items	(2,985,213)	(3,242,622)
Capital	**67,502,580**	**64,410,516**
Credit risk-weighted assets	201,911,487	198,636,182
Operational risk exposure	36,826,475	35,269,629
Foreign currency risk exposure	3,493,557	4,238,173
Capital adequacy ratio	**27.87%**	**27.05%**
Tier 1 capital adequacy ratio	**27.87%**	**27.05%**
Common Equity Tier 1 capital adequacy ratio	**27.71%**	**26.89%**

During the first half of 2020 all prescribed capital adequacy ratios at the Group level were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of the adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively).

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

During H1 2020, the Group also calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of Tier 1 capital and the amount of risk weighted exposures that are included in the calculation of the ratio.

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

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

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

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

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

Stages of the internal capital adequacy assessment process include the following:

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

5. RECOGNITION AND INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS

All financial instruments (investments, deposits, loans and subordinated liabilities) are recognised in business books of accounts, including all derived financial instruments i.e. derivatives, at the moment the Member of the Group becomes a contractual party on the grounds of which such financial asset/liability occurred. All other financial assets and liabilities are initially recognised at the date of the balance in accordance with the terms of the given financial instrument

Initial valuation and/or measurement of the financial assets and financial liabilities is done according at the fair value, with differences in the manner of recognising of transaction costs depending on the choice of the categories of subsequent valuation in the following manner:

- *At fair value through the P&L*, it is done in the amount of fair value of the given equivalents on the day of the initial recognition, where their costs are recognised immediately in the Profit and Loss Statement;
- *At fair value through other comprehensive income* is also based on fair value adapted to all incremental transaction costs which may be directly attributed to acquiring or issuing of a financial instrument. The purchase value does not include transaction costs which may occur during the alienation;
- *At amortized cost,* it is carried at purchase value increased by direct transaction costs.

Assets held for trade are initially recognised and subsequently measured at fair value in the Balance Sheet with transaction costs directly recognised in the P&L t. All changes in the fair value are recognised in the Profit and Loss Statement

With initial recognition the Group may irrevocably allocate for those financial assets which otherwise meet the criteria for measurement at amortised costs (AC) or at fair value through other comprehensive income (FVOCI) to recognise at fair value through the P&L (FVTPL) if in that manner it eliminates or significantly decreases the accounting discrepancies which would otherwise occur. This classification is allowed only at the initial recognition and may not be subsequently revoked.

*Investments in subsidiaries and affiliate*s are included in the purchase value method which implies that these investments are expressed at the procurement costs.

Financial derivatives are initially recognised at purchase value and are subsequently calculated at to market value.

Deposits, debt securities issued by the Group members, received loans and subordinated liabilities are initially measured at fair value increased by direct transaction costs.

5.1. Subsequent measurement of the financial instruments

The accounting treatment of the subsequent measurement depends on the previously performed classification of financial instruments. The following overview shows the manner of valuating, and/or measuring the individual elements of financial assets, depending on their classification and type of instrument.

Classification	Type of instrument	Measurement	Gains/Losses from changes in the fair value	Interests and dividends	Impairment	Exchange differences
Financial assets and liabilities at amortized cost	Debt instruments	Amortized cost	-	P&L: use of EIR	P&L for financial assets	Profit and Loss Statement
Fair value through the P&L	Debt and equity instruments or derivatives	Fair value	Profit and Loss Statement	Profit and Loss Statement	-	Profit and Loss Statement
Capital instruments at fair value through other comprehensive income	Equity instruments	Fair value	Other comprehensive income, without transfer to the P&L	P&L: received dividends	-	Other comprehensive income
Debt financial assets at fair value through other comprehensive income	Debt instruments	Fair value	Other comprehensive income, with transfer to the P&L in case of derecognition	P&L: use of EIR	Profit and Loss Statement	Profit and Loss Statement

5.2. Modification of financial assets

Change of the agreed cash flows due to the changes of contract terms which are not significant or modification of agreed cash flows of financial asset, leading to the recognition of the income/expenditures from the modification of financial assets in the P&L by re-calculating gross book value of financial asset at the current value of changed or modified cash flows according to contracts, discounted by the initial effective interest rate. According to the aforesaid, the member of the Group continues to use the existing asset which is modified.

The member of the Group calculates the gains/losses from modification as the first step which precedes the request for the change of expected credit losses of modified financial assets which are based on changed contractual terms.

5.3. Derecognition

The recognition of financial asset ceases once the contractual entitlements over the cash flows related to the asset expire or when the member of the Group transfers the essential rights and benefits through a transaction pertaining to the ownership over the financial asset or if, through a transaction, the member of the Group does not either transfer or keep all essential rights related to ownership but fails to preserve control over financial asset. All ownership over the transferred financial asset which meets the conditions for derecognition which the member of the Group created or kept is recognised as standalone asset or liability in the Balance Sheet. When derecognizing the financial asset, the difference between the book value (or the book value of the part the asset which was transferred) and the sum of the received compensation (including new assets that are acquired, decreased by new undertaken commitments) as well as collective gains or losses which were previously recognised in the Balance Sheet are recognised in the profit and loss statement for individual instruments.

6. REPORTING BY SEGMENTS

The Parent Bank monitors and discloses business operations according to segments.

Information on the results of each reporting segment are shown below

The Group has a total of four member which represent strategic organisational parts:

Komercijalna Banka a.d., Beograd, Serbia, Parent Bank	It includes loan, deposit and guarantee operations as well as operations related to performing national and international payment transactions, operations pertaining to securities and other financial instruments
Komercijalna Banka a.d., Podgorica, Montenegro	It includes loan, deposit and guarantee operations as well as operations related to performing national and international payment transactions, operations pertaining to securities and other financial instruments
Komercijalna Banka a.d.,Banja Luka, Bosnia and Herzegovina	It includes loan, deposit and guarantee operations as well as operations related to performing national and international payment transactions, operations pertaining to securities and other financial instruments
KomBank INVEST Investment Fund Management Company a.d. Beograd, Serbia	It includes investment fund management operations.

The Parent Bank monitors and discloses business operations according to strategic segments - members of the Group within their consolidated financial statements. The Group performs the largest portion of business operations on the territory of the Republic of Serbia. Subsidiaries are not of material significance for the standalone financial statement of the Parent Bank.

The Balance Sheet total of the Parent Bank amounts to 90.88% of the total balance amount in the consolidated Balance Sheet (2019: 90.14%).

Balance Sheet total of Komercijalna banka a.d.,.Podgorica amounts to 3.63% of total consolidated assets (2019: 3.67%), of Komercijalna banka a.d., Banja Luka 5.46% (2019: 6.15%) and of KombBank INVEST 0.03% (2019: 0.04%).

The result of the strategic segment is used to measure the success of business operations, since the management of the Parent Bank believes that this information is most relevant to value results of a specific strategic segment in comparison to other legal entities which operate in the said activities in the local market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2020

6.1. Reclassification of positions in standalone financial statements of the member of the Group members prior to consolidation

For the purpose of consolidation, and prior to the consolidation process, as needed, the reclassification is performed pertaining to positions in standalone financial statements of the Group members, which affects the correction of the Balance Sheet total and results in the P&L t shown in statutory statements.

Reclassified financial statements represent the opening Balance Sheet positions that are further subject to consolidation.

As of 30.06.2020 the following reclassifications were made in the Balance Sheet and profit and loss statement positions by Group members, except for the member KomBank INVEST, where there was no reclassification effect:

BALANCE SHEET in 000 RSD

Balance Sheet total of Parent Bank	**457,621,394**
Reclassification for the impairment provisions which pertain to the decrease of value in shares of the subsidiaries	2,047,191
Reclassification for impairment provision pertaining to loans to subsidiaries	22,628
Reclassified Balance Sheet total of the Parent Bank	**459,691,213**

Statutory Balance Sheet total of KB Banja Luka	**27,194,313**
Reduction for deferred costs for liabilities presented at amortized cost by applying EIR	(52,176)
Reclassification for impairment provision related to the Parent Bank	614
Reclassification for securities – yield curve method according to Parent Bank, according to regulator the adjusted yield curve method	14,625
Interest for impairment stage 3 receivables (according to regulator derecognized, and/or transferred to Off-Balance Sheet)	25,374
Corporate income tax –closing the advance payment for corporate income tax	(3,654)
Deferred tax assets – reduction for the calculation of corporate income tax	(278)
Valuation of material asset acquisition (acquisition) - According to regulator valuation of assets at net value of receivables, according to the methodology of the Parent Bank gross value of receivables	5,525
Impairment provision – regulator's methodology	538,092
Impairment provision - Parent Bank's methodology	(293,523)
Netting of deferred tax assets and liabilities	(658)
Other	(47)
Reclassified Balance Sheet total by the model of the Parent Bank	**27,428,207**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2020

in 000 RSD

Statutory Balance Sheet total of KB Podgorica	**18,697,699**
Leased fixed assets (the effects of implementation of IFRS 16)	(4,317)
Reclassification for impairment provision relating to the Parent Bank	1,430
Netting of deferred tax assets and liabilities	(16,320)
Deferred taxes (derived)	(1,397)
Reclassified Balance Sheet total by the model of the Parent Bank	**18,677,095**

PROFIT AND LOSS STATEMENT in 000 RSD

Result of the Parent Bank	**2,768,324**
Reclassification for the effect of net change in impairment provision of loans related to subsidiaries (positive effect)	21,593
Reclassification for the effect of net change in provisions for losses on Off-Balance Sheet assets (negative effect)	(4,268)
Reclassified result of the Parent Bank	**2,785,649**

Statutory result of KB Banja Luka	**42,664**
Reclassification for the effect of change in impairment provision of loans relating to the Parent Bank (positive effect on the result)	261
Effect of differences in applying internal and regulatory methodology for credit risks – calculation of impairment provision (negative effect)	(16,386)
Effect of applying internal methodology for credit risks - interest income for clients in stage 3 is not recognized in P&L according to regulator – termination of calculation	1,910
Corporate income tax (not posted in the books of KB BL)	(3,655)
Loss on the basis of deferred taxes (not posted in the books of KB BL)	(278)
Reclassified result of KB Banja Luka	**24,516**

Statutory result of KB Podgorica	**59,191**
Reclassification for the effect of change in impairment provision of loans related to the Parent Bank (negative effect on result)	(751)
Leasing (IFRS 16) – amortization cost and interest	(799)
Reclassification – IAS 19 (bonuses for 2019)	(9,815)
Corporate income tax (not posted in the books of KB PG)	(69)
Net deferred tax – losses (not posted in the books of KB PG)	(2,181)
Reclassified result KB Podgorica	**45,576**

6.2. Consolidation of Balance Sheet and Profit and Loss Statement

During the consolidation the elimination of all interrelationships in the Balance Sheet was performed in the amount of RSD 8,338,615 thousand (2019: RSD 6,675,149 thousand). Elimination of income from P&L was performed in amount of RSD 16,001 thousand (30.06.2019: RSD 10,807 thousand), and the expenses in the amount of RSD 17,050 thousand (30.06.2019: RSD 8,696 thousand).

Standalone reclassified Balance Sheets on 30.06.2020:

	in thousand dinars
KB Beograd	459,691,213
KB Podgorica	18,677,095
KB Banja Luka	27,428,207
KomBank Invest	173,077
Total reclassified non-consolidated Balance Sheet	505,969,592

Balance Sheet on 30.06.2020

In thousand dinars

Total non-consolidated Balance Sheet	**Consolidation amount of Balance Sheet**	**Consolidated Balance Sheet**
505,969,592	**8,338,615**	**497,630,977**
cash/liabilities	1,751	
loans/ liabilities	2,855,976	
stakes /capital	5,480,888	

Standalone reclassified P&L (before tax) 30.06.2020

	In thousand dinars
KB Beograd	2,927,146
KB Podgorica	47,826
KB Banja Luka	28,448
KomBank Invest	2,559
Total reclassified non-consolidated P&L (before tax)	3,005,979

P&L 30.06.2020

In thousand dinars

Total non-consolidated profit in the P&L (before tax)	**Consolidation amount of P&L**		**Consolidated profit (before tax)**
	Income	**Expenses**	
3,005,979	**16,001**	**17,050**	**3,007,028**
Interest	4,986	4,986	
Fees	3,888	3,888	
Other income / expenses	166	166	
Exchange differences (reclassified in capital)	6,961	8,010	

	In thousand dinars
Consolidated gain before tax	3,007,028
Corporate Income tax	(3,723)
Net loss based on deferred taxes	(143,956)
Consolidated gain after tax	2,859,349

Gain and Loss Based on Deferred Taxes

As of 30.06.2020 in P&L, the Group showed the net loss on the basis of effects of deferred taxes in the amount of RSD 143,956 thousand. The Parent Bank showed the net loss on this basis in amount of RSD 141,497 thousand (gain amounting to RSD 17,252 thousand and the loss amounting to RSD 158,749 thousand), KB Podgorica stated the net loss in amount of RSD 2,181 thousand and KB Banja Luka the net loss amounting to RSD 278 thousand.

Corporate Income Tax

The Parent Bank does not have the possibility to perform tax consolidation based on applicable regulations in the Republic of Serbia. Final amounts of liabilities arising from income tax the Group members determine by applying the tax rate on tax base stipulated by local tax regulations and they disclose them in standalone notes to their annual statutory financial statements.

The stated corporate income tax at the Group level in the amount of RSD 3,723 thousand pertains to subsidiary banks, as follows: to KB Podgorica RSD 69 thousand and KB Banja Luka in amount of RSD 3,654 thousand.
The Parent Bank did not state the income tax, due to right to use the tax credit from previous years.

Balance Sheet 2019

In thousand dinars

Total non-consolidated Balance Sheet	**Consolidation amount of Balance Sheet**	**Consolidated Balance Sheet**
482,431,043	**6,675,149**	**475,755,894**
Cash/liabilities	8,378	
Loans /liabilities	1,185,883	
Stakes /capital	5,480,888	

Profit and Loss Statement 30.06.2019

In thousand dinars

Total non-consolidated profit in the P&L (before tax)	**Consolidation amount of P&L**		**Consolidated profit (before tax)**
	Income	**expenses**	
3,627,855	**10,807**	**8,696**	**3,625,744**
Interest	1,534	1,534	
Fees	6,188	6,188	
Other income / expenses	171	171	
Exchange differences (reclassified in capital)	2,914	803	

The overview of the strategic segments from the consolidated Balance Sheet and consolidated P&L is shown below:

A. BALANCE SHEET - CONSOLIDATED as of 30 June 2020

In thousand dinars

	Komercijalna Banka a.d. Beograd	Komercijalna Banka a.d. Podgorica	Komercijalna Banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
ASSETS					
Cash and assets held with the central bank	76,487,156	2,444,128	4,103,157	-	83,034,441
Receivables from derivatives	3,490	-	-	-	3,490
Securities	154,573,244	2,364,105	3,475,610	152,328	160,565,287
Loans and receivables from banks and other financial organisations	17,214,528	354,221	1,176,943	16,099	18,761,791
Loans and receivables from customers	188,897,608	11,767,236	17,571,686	-	218,236,530
Intangible assets	568,956	27,627	43,566	-	640,149
Property, plant and equipment	6,208,933	384,825	381,740	183	6,975,681
Investment property	1,838,717	88,337	250,035	-	2,177,089
Current tax assets	-	-	3,604	78	3,682
Deferred tax assets	1,039,709	-	-	2,058	1,041,767
Non-current assets held for sale and assets from discontinued operations	138,017	200,856	103,440	-	442,313
Other assets	5,267,971	444,396	34,154	2,236	5,748,757
Total Assets	**452,238,329**	**18,075,731**	**27,143,935**	**172,982**	**497,630,977**

A. BALANCE SHEET - CONSOLIDATED as of 30 June 2020

In thousand dinars

LIABILITIES	Komercijalna Banka a.d. Beograd	Komercijalna Banka a.d. Podgorica	Komercijalna Banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Deposits and other liabilities to banks, other financial organisations and central bank	3,647,058	255,614	4,334,469	-	8,237,141
Deposits and other financial liabilities to other customers	359,771,391	14,802,961	17,232,439	-	391,806,791
Provisions	1,831,147	130,586	21,185	12,641	1,995,559
Current tax liabilities	-	69	-	-	69
Deferred tax liabilities	-	7,585	13,343	-	20,928
Other liabilities	17,936,009	201,061	444,216	1,570	18,582,856
Total liabilities	**383,185,605**	**15,397,876**	**22,045,652**	**14,211**	**420,643,344**
Capital					
Share capital and share premium	40,034,550	-	-	-	40,034,550
Accumulated result	3,565,120	(551,210)	351,905	18,093	3,383,908
Reserves	32,861,090	543,425	164,031	560	33,569,106
Non-controlling interest	-	-	69	-	69
Total capital	**76,460,760**	**(7,785)**	**516,005**	**18,653**	**76,987,633**
Total liabilities and equity	**459,646,365**	**15,390,091**	**22,561,657**	**32,864**	**497,630,977**

A. BALANCES SHEET – CONSOLIDATED as of 31 December 2019

In thousand dinars

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and assets held with central bank	67,558,219	2,730,826	6,365,357	-	76,654,402
Securities	138,469,551	2,581,086	3,280,329	148,465	144,479,431
Loans and receivables from banks and other financial organisations	24,645,277	687,724	1,640,613	16,390	26,990,004
Loans and receivables from customers	180,852,563	10,287,219	17,094,376	-	208,234,158
Intangible assets	665,735	31,801	56,964	-	754,500
Property, plant and equipment	6,437,937	414,475	401,970	9	7,254,391
Investment property	1,857,927	92,708	251,981	-	2,202,616
Current tax assets	-	-	6,708	78	6,786
Deferred tax assets	1,074,197	-	-	2,058	1,076,255
Non-current assets held for sale and assets from discontinued operations	196,300	202,234	102,206	-	500,740
Other assets	7,100,024	444,432	55,662	2,493	7,602,611
Total assets	**428,857,730**	**17,472,505**	**29,256,166**	**169,493**	**475,755,894**

A. BALANCE SHEET – CONSOLIDATED as of 31 December 2019

In thousand dinars

LIABILITIES	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities to banks, other financial organisations and central bank	3,917,547	280,246	4,120,813	-	8,318,606
Deposits and other liabilities to other customers	335,317,154	15,189,836	20,480,720	-	370,987,710
Provisions	2,310,039	140,546	20,370	12,455	2,483,410
Current tax liabilities	-	1,949	724	-	2,673
Deferred tax liabilities	-	10,945	21,404	-	32,349
Other liabilities	13,861,230	215,937	481,686	717	14,559,570
Total liabilities	**355,405,970**	**15,839,459**	**25,125,717**	**13,172**	**396,384,318**
Capital					
Share capital and share premium	40,034,550	-	-	-	40,034,550
Accumulated result	8,859,734	(614,040)	350,089	15,781	8,611,564
Reserves	29,866,059	616,591	242,429	313	30,725,392
Non-controlling interest	-	-	70	-	70
Total capital	**78,760,343**	**2,551**	**592,588**	**16,094**	**79,371,576**
Total liabilities and equity	**434,166,313**	**15,842,010**	**25,718,305**	**29,266**	**475,755,894**

B. PROFIT AND LOSS STATEMENT – CONSOLIDATED as of 30 June 2020

In thousand dinars

	Komercijalna Banka a.d. Beograd	Komercijalna Banka a.d. Podgorica	Komercijalna Banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Interest income	6,521,323	356,670	408,139	257	7,286,389
Interest expenses	(573,520)	(58,827)	(93,309)	-	(725,656)
Net interest income	**5,947,803**	**297,843**	**314,830**	**257**	**6,560,733**
Fee and commission income	3,221,886	107,604	121,940	13,267	3,464,697
Fee and commission expenses	(845,700)	(21,897)	(37,630)	(140)	(905,367)
Net fee and commission income	**2,376,186**	**85,707**	**84,310**	**13,127**	**2,559,330**
Net gain from change in fair value of financial instruments	35,085	-	-	1,404	36,489
Net gain from derecognition of financial instruments that are measured at fair value	108,307	1,168	6,793	4	116,272
Net income from exchange differences and effects of agreed currency clause	(14,396)	15,319	(106)	-	817
Net expenses from impairment of financial assets that are not measured at fair value through P&L	(81,834)	(11,608)	(11,184)	-	(104,626)
Other operating income	125,019	2,783	4,754	-	132,556
Total net operating income	**8,496,170**	**391,212**	**399,397**	**14,792**	**9,301,571**
Cost of salaries, salary allowances and other personal expenses	(3,110,456)	(146,668)	(181,988)	(7,728)	(3,446,840)
Depreciation costs	(492,842)	(46,425)	(57,807)	(10)	(597,084)
Other income	734,678	5,667	5,232	5	745,582
Other expenses	(2,714,297)	(143,127)	(135,340)	(3,437)	(2,996,201)
Profit before tax	**2,913,253**	**60,659**	**29,494**	**3,622**	**3,007,028**
Corporate income tax	-	(69)	(3,654)	-	(3,723)
Net loss from deferred taxes	(141,497)	(2,181)	(278)	-	(143,956)
Profit after tax	**2,771,756**	**58,409**	**25,562**	**3,622**	**2,859,349**

The entire stated consolidated profit belongs to the Parent Entity.

B. PROFIT AND LOSS STATEMENT – CONSOLIDATED as of 30 June 2019

In thousand dinars

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST .d. Beograd	Total
Interest income	6,839,769	322,772	407,703	295	7,570,539
Interest expenses	(533,403)	(47,882)	(100,611)	-	(681,896)
Net interest income	**6,306,366**	**274,890**	**307,092**	**295**	**6,888,643**
Fee and commission income	3,392,525	104,533	125,540	11,702	3,634,300
Fee and commission expenses	(793,572)	(21,865)	(40,141)	(131)	(855,709)
Net fee and commission income	**2,598,953**	**82,668**	**85,399**	**11,571**	**2,778,591**
Net gain from change in fair value of financial instruments	36,998	-	-	1,841	38,839
Net gain from derecognition of financial instruments that are measured at fair value	201,317	-	-	6	201,323
Net income from exchange differences and effects of agreed currency clause	8,972	7,122	(4,177)	-	11,917
Net income from impairment of financial assets that are not measured at fair value through P&L	813,784	(15,562)	21,285	-	819,507
Net loss from derecognition of financial instruments that are measured at amortized cost *	(590,451)	-	-	-	(590,451)
Other operating income	68,323	2,597	3,859	-	74,779
Total net operating income	**9,444,262**	**351,715**	**413,458**	**13,713**	**10,223,148**
Cost of salaries, salary allowances and other personal expenses	(2,177,607)	(133,230)	(162,950)	(7,482)	(2,481,269)
Depreciation costs	(496,957)	(21,707)	(57,104)	(5)	(575,773)
Other income	409,063	18,726	6,449	5	434,243
Other expenses	(3,671,005)	(162,461)	(137,685)	(3,454)	(3,974,605)
Profit before tax	**3,507,756**	**55,043**	**62,168**	**2,777**	**3,625,744**
Net profit from deferred taxes	146	-	-	-	146
Profit after tax	**3,507,902**	**53,043**	**62,168**	**2,777**	**3,625,890**

Within the stated consolidated profit, the profit belonging to owners without controlling interest amounts to RSD 1 thousand.

*Over the period January – June 2019 net losses were recorded from derecognition of financial instruments that are measured at amortized cost in amount of RSD 590,451 thousand. The whole amount pertains to net effects of implementation of the Law on Conversion of Housing Loans Indexed in Swiss Francs rendered by

Ministry of Finance of the Republic of Serbia (from April 2019), under which the banks are obliged to recognize the costs of conversion and reduction of the remaining debt in P&L of the current period.

According to the Law, the amount obtained by converting the remaining debt from Swiss Francs into the debt indexed in Euros at exchange rate for conversion applicable to all clients who have signed the agreement with the Parent Bank, is reduced by 38%, with 23% of reduction being charged to P&L of the current period of the Parent Bank, and for 15% of reduction a receivable is formed from the Republic of Serbia. Net negative effect stated in P&L of the Parent Bank pertains to recalculation of 23% of reduction in net receivables based on derecognition of loans in Swiss Francs.

The new reduced amount of loan-related receivables in Euros with a new repayment schedule has been recorded by the Parent Bank at the position loans and receivables from customers.

7. CAPITAL

7.1 Capital includes:

	In thousand dinars 30 June 2020.	31 December 2019.
Share capital	17,191,526	17,191,526
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	25,432,803	21,849,598
Revaluation reserves	8,136,306	8,875,798
Profit	4,645,249	9,981,902
Loss	(1,261,335)	(1,370,332)
Balance as at	**76,987,633**	**79,371,576**

Capital includes:

Structure of the capital — In thousand RSD

	30 June 2020			31 December 2019		
	Majority share	Non-controlling interest	Total	Majority share	Non-controlling interest	Total
Share capital	17,191,466	60	17,191,526	17,191,466	60	17,191,526
Share premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	**40,034,550**	**60**	**40,034,610**	**40,034,550**	**60**	**40,034,610**
Profit	**4,645,243**	**6**	**4,645,249**	**9,981,896**	**6**	**9,981,902**
Loss	**(1,261,335)**	**-**	**(1,261,335)**	**(1,370,332)**	**-**	**(1,370,332)**
Reserves from profit and other reserves	25,432,800	3	25,432,803	21,849,594	4	21,849,598
Revaluation reserves (credit balance)	6,519,120	-	6,519,120	7,256,593	-	7,256,593
Revaluation reserves (debt balance)	(248)	-	(248)	(248)	-	(248)
Translation reserves (Note 7.2)	1,617,434	-	1,617,434	1,619,453	-	1,619,453
Reserves	**33,569,106**	**3**	**33,569,109**	**30,725,392**	**4**	**30,725,396**
Capital	**76,987,564**	**69**	**76,987,633**	**79,371,506**	**70**	**79,371,576**

The share capital of the Parent Bank is formed from the initial deposits of the shareholders and subsequent issues of new shares. Shareholders have controlling rights over the Parent Bank (ordinary shareholders), as well as rights of share in the distribution of profits. As of 30 June 2020 the share capital of the Parent Bank amounts to RSD 17,191,466 thousand and includes 17,191,466 shares with the nominal value of RSD 1 thousand per share.

Pursuant to the Decision on the Parent Bank's General Meeting of Shareholders 4690/3 dated 28.04.2020, the profit from 2019 and earlier years was distributed to payment of dividends to holders of ordinary and preference shares in the amount of RSD 4,477,880 thousand and the increase of profit reserves in the amount of RSD 3,582,000 thousand, which equals the increase of this position compared to 31.12.2019.

The structure of the Parent Bank's shares is provided in the following table:

	Number of shares	
Types of shares a	**30 June 2020**	**31 December 2019**
Ordinary shares	16,817,956	16,817,956
Preference shares	373,510	373,510
Balance as of date	**17,191,466**	**17,191,466**

Structure of Parent Bank's share capital – ordinary shares as of 30.06.2020 is as follows:

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

On 26.02.2020, 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 the Agreement of Purchase and Sale of 83.23% of ordinary shares of Komercijalna banka AD Beograd.
By signing this Agreement the Parent Bank has acquired a new strategic partner, who will take over the management of the Group members after the completion of the transaction.

7.2. Cumulative exchange rate differences on the basis of foreign currency adjustments for international transactions

In thousand dinars

	Cumulative exchange differences on stakes in subsidiaries	Exchange rate differences on intra-group transactions	Exchange rate differences from translating the P&L Statement result from average to the closing rate	Total
Balance on 1 January the previous year	1,521,335	75,058	51,758	1,648,151
Increase	(34,940)	6,859	(617)	(28,698)
Balance as of 31 December of previous year	1,486,395	81,917	51,141	1,619,453
Increase	(970)	(1,049)	-	(2,019)
Balance as of 30 June 2020	**1,485,425**	**80,868**	**51,141**	**1,617,434**

8. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET POSITIONS

In thousand dinars

	30 June 2020	31 December 2019
Business operations in the name and for the account of third parties	4,174,913	4,201,557
Future commitments undertaken	53,345,983	56,406,073
Derivatives intended for trade in the agreed currency	2,351,520	-
Other off-balance sheet positions	476,386,159	443,227,208
Total	**536,258,575**	**503,834,838**

Internal relationships with Komercijalna Banka a.d., Banja Luka were eliminated from undertaken future commitments on the grounds of undrawn loans amounting to RSD 1,998,792 thousand (EUR 17 million) and Komercijalna Banka a.d., Podgorica on the grounds of undrawn loans amounting to RSD 405,637 thousand (EUR 3,45 million) and unused part of the approved limit for KomBank INVEST cards in the amount of RSD 200 thousand.

Internal relationships which were eliminated from other off-balance sheet positions are the relationships of Komercijalna Banka a.d. Banja Luka, Komercijalna Banka a.d. Podgorica and KomBank INVEST with the Komercijalna Banka a.d. Beograd.

8.1 Issued guarantees and letters of credit

Banks, Group members issue guarantees and letters of credit which guarantee settlement of liabilities by their clients to third parties. These contracts have a settled duration period which is most commonly up to one year.

The contracted values of potential liabilities are shown in the following table:

	30 June 2020	31 December 2019
		In thousand dinars
Payment guarantees	5,013,190	4,983,412
Performance guarantees	5,972,252	5,754,320
Letters of credit	221,717	281,963
Balance as of date	**11,207,159**	**11,019,695**

The aforesaid amounts represent the maximum amount of losses which the Banks, members of the Group would incur on the date of financial statements if none of the clients are able to settle the contracted liabilities.

8.2 Structure of the commitments undertaken is as follows

	30 June 2020	31 December 2019
		In thousand dinars
Unused part of the approved overdraft on payment and credit cards and overdrafts on current accounts	11,468,578	11,071,708
Irrevocable commitments undertaken for undrawn loans	29,936,140	33,033,872
Other irrevocable commitments	734,106	1,280,798
Balance as of date	**42,138,824**	**45,386,378**

9. RELATED PARTIES

The Republic of Serbia holds the biggest stake in voting shares of the Parent Bank, and it is the owner of 83.23% of Bank's ordinary shares. The Parent Bank has three subsidiaries: Komercijalna banka a.d. Podgorica, Komercijalna banka a.d. Banja Luka and KomBank INVEST a.d. Beograd.

Legal entities and private individuals are regarded as related parties if one entity has control, joint control or significant influence on financial and business decision making of another legal entity. Related parties are also those entities that are under joint control of the same parent legal entity.

Within the Group's regular business operations, a number of banking transactions with related parties are performed. These include loans, deposits, investments in equity securities and derivative instruments, payment transactions and other banking transactions.

Consolidated transactions with subsidiaries are shown in Note 6.

10. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date of the Parent Bank:

Coronavirus COVID-19 Pandemic

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

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

According to the preliminary estimates of the Bank's management, the newly occurred pandemic could in a concrete case affect the expected level of revenue realization on the one hand and potential increase in expenses on the other , loan distribution, quality of the credit portfolio, collaterals, impairment provision because of reduced ability of debtors to repay their liabilities, particularly in economic branches such as tourism, catering industry, transport, oil industry, etc. Despite the pandemic, the Bank's liquidity is high and stable, and the capital adequacy is at a much higher level than the regulatory prescribed limit.

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

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

Also, for the purpose of ensuring the RSD and FX liquidity the National Bank of Serbia launched, after the state of emergency was introduced, the auctions where swap and repo transactions are made with commercial banks. In swap auctions the NBS purchases and sells foreign currency, while in repo auctions it purchases the government securities from banks. The Bank has, as a secondary liquidity reserve, a considerable amount of securities that are highly marketable in terms of the rate of return they bear. Accordingly, one can conclude that in spite of expected reduced liquidity of the Bank due to the introduced moratorium on loans, the Bank's liquidity is still significantly above the regulatory limits.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2020

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

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

For the clients who reject the moratorium, due monthly liabilities will be collected in the amount from the existing repayment schedule without calculation of default interest.

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

Other

On 17.07.2020 an extraordinary General Meeting of Bank's Shareholders was held at which decisions were adopted on:

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

Based on the decisions of General Meeting of the the Bank's shareholders, and after fulfilling all the necessary requirements, on August 20, 2020 the Executive Board of the Bank passed the Decision on dividend payment for the business years 2014, 2015, 2016, 2017, 2018 and 2019. The dividend will be paid in cash on September 21, 2020 to the shareholders of the Bank who were registered in the Central Securities Depositary and Clearing House as legal holders of the Bank 's shares on the Dividend Day.

Events after the Balance Sheet date of Komercijalna banka a.d. Podgorica:

There were no events after the balance sheet date, until the date these financial statements were issued, which would require possible corrections or additional disclosures by Komercijalna Banka a.d. Podgorica.

Events after the Balance Sheet date of Komercijalna banka a.d. Banja Luka:

There were no events after the balance sheet date, until the date of the issuance of these financial statements, which would require possible corrections or additional disclosures by Komercijalna Banka a.d.Banja Luka.

Events after the Balance Sheet date of KomBank INVEST a.d. Beograd, Investment Fund Management Company:

There were no events after the balance sheet date, until the date of the issuance of these financial statements, which would require possible corrections or additional disclosures by KomBank INVEST a.d., Beograd.

There were no other significant events after the reporting period date which would require disclosure in the Notes to consolidated financial statements for 30 June 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2020

11. FOREIGN EXCHANGE RATES

The exchange rates determined at the interbank meeting of the foreign exchange market applied for the conversion of balance sheet items into dinars on June 30, 2020 and 2019 for certain major currencies are as follows:

	Official exchange rate of the National Bank of Serbia		Average exchange rate of the National Bank of Serbia	
	30.06.2020	**31.12.2019**	**30.06.2020**	**30.06.2019**
USD	104.6329	104.9186	-	-
EUR	117.5760	117.5928	117.5746	118.0961
CHF	109.9252	108.4004	-	-
BAM	60.1157	60.1242	60.1150	60.3816

In Belgrade,

On 31.08.2020

Persons responsible for preparation
of the financial statements

KOMERCIJALNA BANKA AD BEOGRAD

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Tax Identification Number: SR 100001931
VAT number: 134968641
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Business Registers Agency: 10156/2005
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Pursuant to Article 52 of the Law on Capital Market
(RS Official Gazette No. 31/2011,112/2015,108/2016 and 9/2020) it is stated the following:

STATEMENT

We hereby state that, according to our best knowledge, the semi-annual consolidated financial statements as at 30.06.2020 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, inclusive of its companies that are included in the consolidated financial statements.

Persons responsible for the preparation of consolidated financial statements

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

KOMERCIJALNA BANKA AD BEOGRAD

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Business Registers Agency: 10156/2005
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STATEMENT

Consolidated financial statements of Komercijalna banka AD Beograd for the period 01.01.2020. until 30.06.2020. have not been audited.

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

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

Persons responsible for the preparation of consolidated financial statements

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