QUARTERLY REPORT OF NLB KOMERCIJALNA BANKA AD BEOGRAD FOR Q2 2022

Belgrade, August 2022

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BUSINESS PERFORMANCE REPORT OF THE BANK FOR Q2 2022

Belgrade, August 2022

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OVERVIEW OF BASIC BUSINESS PERFORMANCE INDICATORS IN THE PERIOD BETEWEEN JANUARY 01, AND JUNE 30, 2022

This quarterly report for Q2 2022 is a credible overview of the business developments and performance of NLB KOMERCIJALNA BANKA AD Beograd achieved in Q2, as well as in the first six months of 2022[1].

BASIC BUSINESS PERFORMANCE INDICATORS	30.06.22	31.05.22	30.04.22	31.03.22	2021	2020
ROA	1.42%	1.24%	0.88%	1.51%	0.73%	0.84%
ROE	9.25%	8.05%	5.76%	9.77%	4.59%	5.06%
Net interest margin to total assets	2.66%	2.61%	2.50%	2.54%	2.55%	2.67%
CIR	61.18%	62.30%	62.45%	62.76%	66.62%	67.70%
Operating cash flows (000 RSD)	7.596.647	6,406,852	4.564.496	4,682,102	9,577,934	7,119,498
Assets per employee (000 EUR)	1,707	1,667	1.726	1,688	1,755	1,466
Assets per employee (000 RSD)	200,367	195,935	203.125	198,797	206,341	172,350
INCOME STATEMENT (in 000 RSD)						
Profit/loss before tax	3,660,520	2,623,624	1,477,897	1,842,869	3,463,384	3, 798,519
Profit/loss after tax	3,398,464	2,460,062	1,366,662	1,673,399	3,645,699	2,534,434
Net interest income	6,855,554	5,532,270	4,198,667	3,097,335	12,145,109	12,069,290
Net fee income	3,689,496	2,982,227	2,305,495	1,664,769	5,737,364	4,875,408
Operating expenses	6,451,254	5,304,919	4,061,824	2,988,906	11,913,487	11,472,051
Net income/expense from impairment of fin. assets not measured at fair value through the income statement	279,200	(26,711)	(268,343)	71,594	15,772	(1,072,032)
BALANCE SHEET (in 000 RSD)						
Balance sheet assets	543,596,528	533,139,904	553,515,788	482,479,610	489,440,405	460,001,399
Off-balance sheet activities	690,605,109	658,729,413	660,392,816	537,929,925	532,084,315	489,305,071
RETAIL[2]						
Loans	167,841,298	166,836,566	165,658,141	124,247,207	118,286,619	108,585,889
Deposits	360,218,575	354,723,715	357,802,038	325,500,061	342,469,159	309,268,562
CORPORATE[3]						
Loans	127,829,115	124,762,916	123,114,964	100,716,538	89,221,890	78,833,152
Deposits	64,228,628	62,103,195	58,964,205	46,938,217	48,646,021	47,765,467
LOANS/DEPOSITS RATIO						
Gross loans/deposits	69.25%	69.68%	67.73%	62.52%	55.55%	53.37%
Net loans/deposits	67.45%	67.83%	65.86%	60.71%	53.71%	51.04%
CAPITAL (in 000 RSD)	83,733,620	83,213,477	81,487,666	73,472,374	75,642,722	74,660,539
Capital adequacy	24.16%	24.44%	24.91%	26.64%	28.55%	32.50%
Number of employees	2,713	2,721	2,725	2,427	2,372	2,669

Table 1: Overview of basic business performance indicators (Source: NLB Komercijalna banka a.d. Beograd)

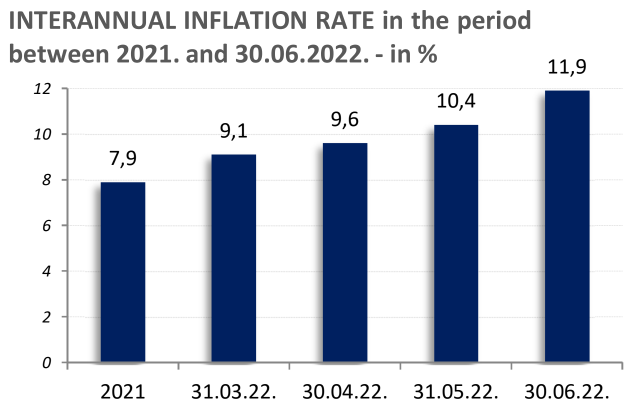
[1] The data contained in the Business Performance Report of the Bank for Q2 2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd. The data contained in the Report till 31.03.2022 are related to Komercijalna banka a.d. Beograd, whereas the data for the period after 31.03.2022 are related to the integrated NLB Komercijalna banka a.d. Beograd.
The data on the values stated on the income statement for the period 01.01 - 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banke a.d. Beograd, i.e. the result achieved for the first six months of 2022 does not contain the income statement figures achieved by NLB Banka a.d. Beograd in the period of first four months in 2022 (the result achieved for the four months is recognised through the capital of the integrated NLB Komercijalna banka a.d. Beograd). The data on the values stated on the income statemet for the period 01.01 – 30.06.2021 are related to Komercijalna banka a.d. Beograd.

[2] Retail includes natural persons, micro legal entities and sole traders

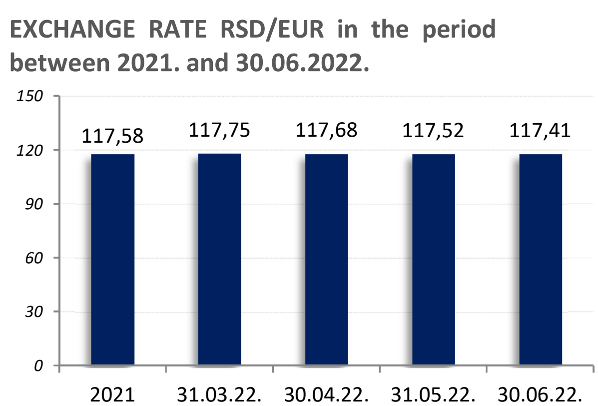
[3] Corporate incudes small-, medium-sized and large legal entities

MACROECONOMIC CONDITIONS OF BUSINESS ACTIVITIES IN THE PERIOD BETWEEN JANUARY 01, AND JUNE 30, 2022

In June 2022, as compared to the same month of the previous year, consumer prices increased by 11.9%, while at a monthly level in June the consumer prices increased by 1.6% on the average. Due to the current conflict in Ukraine, additional inflation pressures are expected in the short run on prices of energy commodities, food and industrial goods, due to an increase in production costs.



At the end of the second quarter of the current year, in comparison to the end of 2021, the dinar got stronger against the euro by 0.2%, and weaker by 7.4% against the US dollar. The dinar exchange rate was moving around 117.4 dinars for 1 euro. The National Bank of Serbia, since the beginning of the year, has intervened in the interbank foreign exchange market (IFEM) by selling EUR 1,790 million net to maintain the exchange rate RSD to EUR relatively stable. Only in June this year the National Bank of Serbia bought EUR 405 million[4] in the IFEM.
The gross foreign exchange reserves at the end of June this year were EUR 14,776 million, and this is an increase, as compared to the previous month, by EUR 872 million. The increase in the foreign exchange reserves is primarily the result of activities of the National Bank of Serbia in the IFEM (EUR 403 million, net effect of foreign exchange purchase and swap transactions), net sale of the government securities in the market, donations and otherwise (net amount of EUR 314 million), as well as the net inflow to required forex reserves of banks (EUR 264 million).

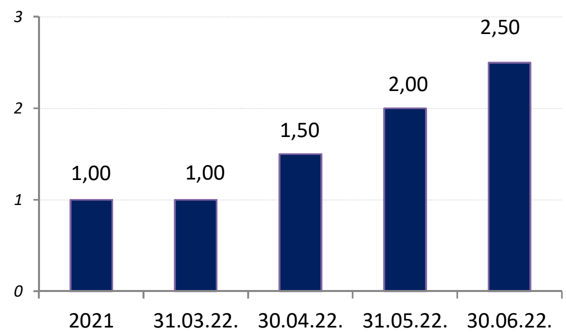


[4] NBS, Press release, Forex reserves level and development in the interbank forerx market, 11.7.2022.

Until early April, the National Bank of Serbia maintained the key policy rate (KPR) at the level of 1.00%. At the meeting held on 7.4.2022 the Executive Board of the National Bank of Serbia (the NBS) decided, for the first time after a long time, to increase the key policy rate by 50 bps to the level of 1.50%. Following this increase, the Executive Board increased the key policy rate in May, June and July several times, namely: in mid-May of the current year, the NBS increased the KPR to the level of 2.00%, at the beginning of June by additional 50 pbs, to the level of 2.50%, and in July the key policy rate was increased by additional 25 bps, to the level of 2.75%. The decision on further tightening of monetary conditions was rendered taking into account still persisting inflation pressures from the global and domestic markets. The continuing conflict in Ukraine has caused the escalation of the global energy crisis and further growth in prices of primary agricultural products and industrial raw materials, as well as further aggravated functioning of international supply chains. It is expected that the upcoming new agricultural season would result in drop in prices of fruits and vegetables as compared to their current prices. The current tightening of monetary conditions, and effects of measures undertaken by the Government of the Republic of Serbia aimed to limit prices of basic foodstuffs, should work towards calming down the existing inflation pressures.

The tightening of monetary policy measures is evident also when it comes to other international monetary institutions. In May this year, the US Federal Reserve System has continued to increase the key policy rate, while in March the European Central Bank decided to additionally cut the volume of quantitative facilities during the second quarter and at the end of May announced a possibility of suspension of net purchase of assets and commencement of interest rate increase at the beginning of the third quarter[5]. Within the said activities, on 20.07.2022, the European Central Bank increased the key policy rate by 50 bps.

NBS KEY POLICY RATE in the period between 2021. and 30.06.2022. - in %

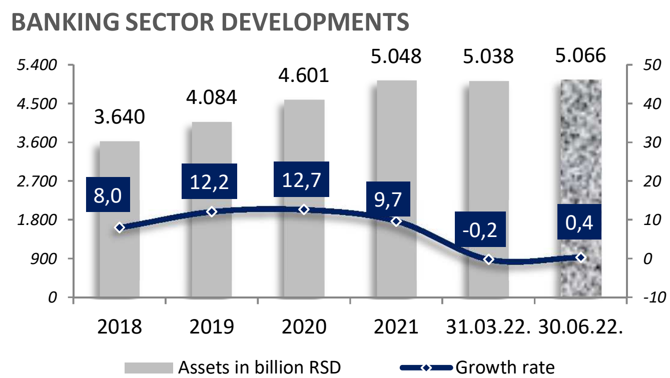


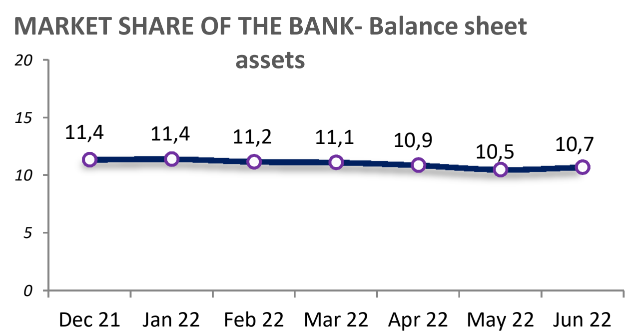
[5] NBS, Press release, Key Policy Rate, 9.6.2022

BANKING SECTOR AND FINANCIAL STANDING OF THE BANK

At the end of May 2022, the banking sector of the Republic of Serbia comprised a total of 22 banks, which is by 1 bank less than at end of 2021, and by 4 banks less than at the end of 2020. At the end of May 2022, the banking sector employed 22,210[6] employees, which is by 340 employees less than at the end of 2021, and by 613 employees less than at the end of 2020.

The total assets of the sector, at the end of March 2022, reached the amount of 5,038 billion dinars and, as compared to the end of the last year, fell by 10 billion dinars, i.e. 0.2%.
The total capital of the banking sector at the end of March 2022 was 719 billion dinars, which means that it was reduced by 1 billion dinars, i.e. 0.1% as compared to the end of the previous year.
According to the available preliminary data, the assets of the sector at the end of May 2022 reached the amount of approximately 5,068 billion dinars[7], and at the end of June reached the amount of approx. 5,066 billion dinars[8], therefore, the expected share of NLB Komercijalna banka at the end of June 2022 in the sector assets was equal to approx. 10.7%.



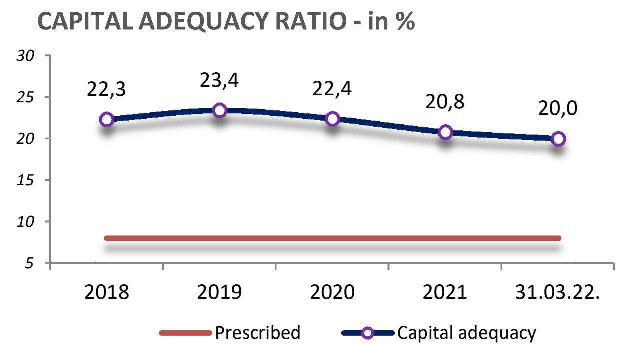


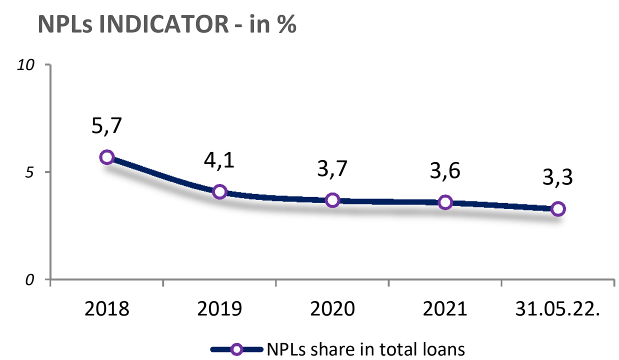
Note: The market share of the Bank over the entire period is related to the market share of the integrated NLB Komercijalna banka a.d. Beograd

The average value of capital adequacy indicator of the banking sector, as at 31.03.2022, was 20.0%. The reached value of 20.0%, as compared to the new prescribed minimum indicator of 8.0%, shows that the banking sector is adequately capitalized.

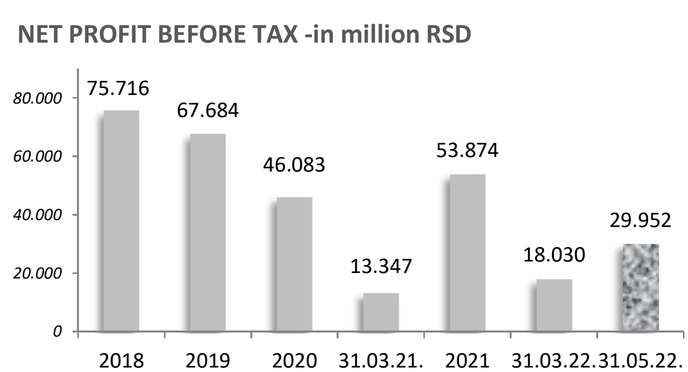
6 NBS, Macroeconomic Developments in Serbia, July 2022
7 NBS, Macroeconomic Developments in Serbia, July 2022
8 NBS, Statistics, Monetary Statistics, July 2022

In addition to the adequate capitalization, the banking sector is characterized also by further declining of the share of non-performing loans in total loans. At the end of May 2022, the share of the gross NPLs in total loans was 3.3% (as at 31.12.2021, this share was 3.6%, and 3.7% as at 31.12.2020).





During the first quarter of 2022, the banking sector saw a growth in profitability as compared to the same period in 2021. In Q1 2022, the generated net profit before tax was 18 billion RSD, whereas in the same period of 2021 the net profit amounted to 13 billion dinars.
According to the available preliminary data, the sector's profit at the end of May 2022 reached approximately 30 billion dinars.[9]
At the level of the banking sector, the return on equity (ROE) ratio, at the end of May 2022, was 10.1%, while the return on assets (ROA) ratio was 1.4%.



[9] NBS, Macroeconomic Developments in Serbia, July 2022

ORGANISATIONAL STRUCTURE AND BODIES OF THE BANK

The Management Board of the Bank was formed in accordance with the Law on Banks, Articles of Association of the Bank, and is composed of at least 5 (five) members, including the chairman, and at least one-third of its members must be persons independent of the Bank. The members of the Management Board are appointed by the AMG of the Bank, for a four-year period. Draft proposal for appointment of the chairman and the members to the Management Board of the Bank is approved by the Management Board of the Bank, upon proposal of shareholders.

Duties and powers of the Management Board of the Bank are defined in Article 73 of the Law on Banks and Article 27 of the Articles of Association of the Bank. The members of the Management Board of the Bank, as at June 30, 2022, are:

NAME AND SURNAME	SHAREHOLDER / MEMBER INDEPENDENT OF THE BANK	FUNCTION
Archibald Kremser	*NLB dd Ljubljana*	*Chairman*
Blaž Brodnjak	*NLB dd Ljubljana*	*Member*
Uršula Kovačič Košak	*NLB dd Ljubljana*	*Member*
Igor Zalar	*NLB dd Ljubljana*	*Member*
Marko Jerič	*NLB dd Ljubljana*	*Member*
Vesna Vodopivec	*NLB dd Ljubljana*	*Member*
Nenad Filipović	*Member independent of the Bank*	*Member*
Prof. Dragan Đuričin	*Member independent of the Bank*	*Member*
Veljko Kuštrov	*Member independent of the Bank*	*Member*

A quorum for activities and decision-making of the Management Board of the Bank exists if a meeting is attended by the majority of the total number of members of the Management Board of the Bank. The chairman and every member are entitled to one vote each.
The Executive Board consists of at least three members, of whom one being the chairman of the Executive Board, and one the deputy of the chairman. The term of office of the members of the Executive Board of the Bank, including also the chairman and his deputy, is four years from the date of appointment.

Duties and powers of the Executive Board are defined in Article 76 of the Law on Banks and Article 31 of the Articles of Association of the Bank.
The members of the Executive Board of the Bank as at June 30, 2022, are:

NAME AND SURNAME	FUNCTION
Vlastimir Vuković	*Chairman*
Dejan Janjatović	*Deputy Chairman*
Dragiša Stanojević	*Member*
Dubravka Đedović Negre	*Member*

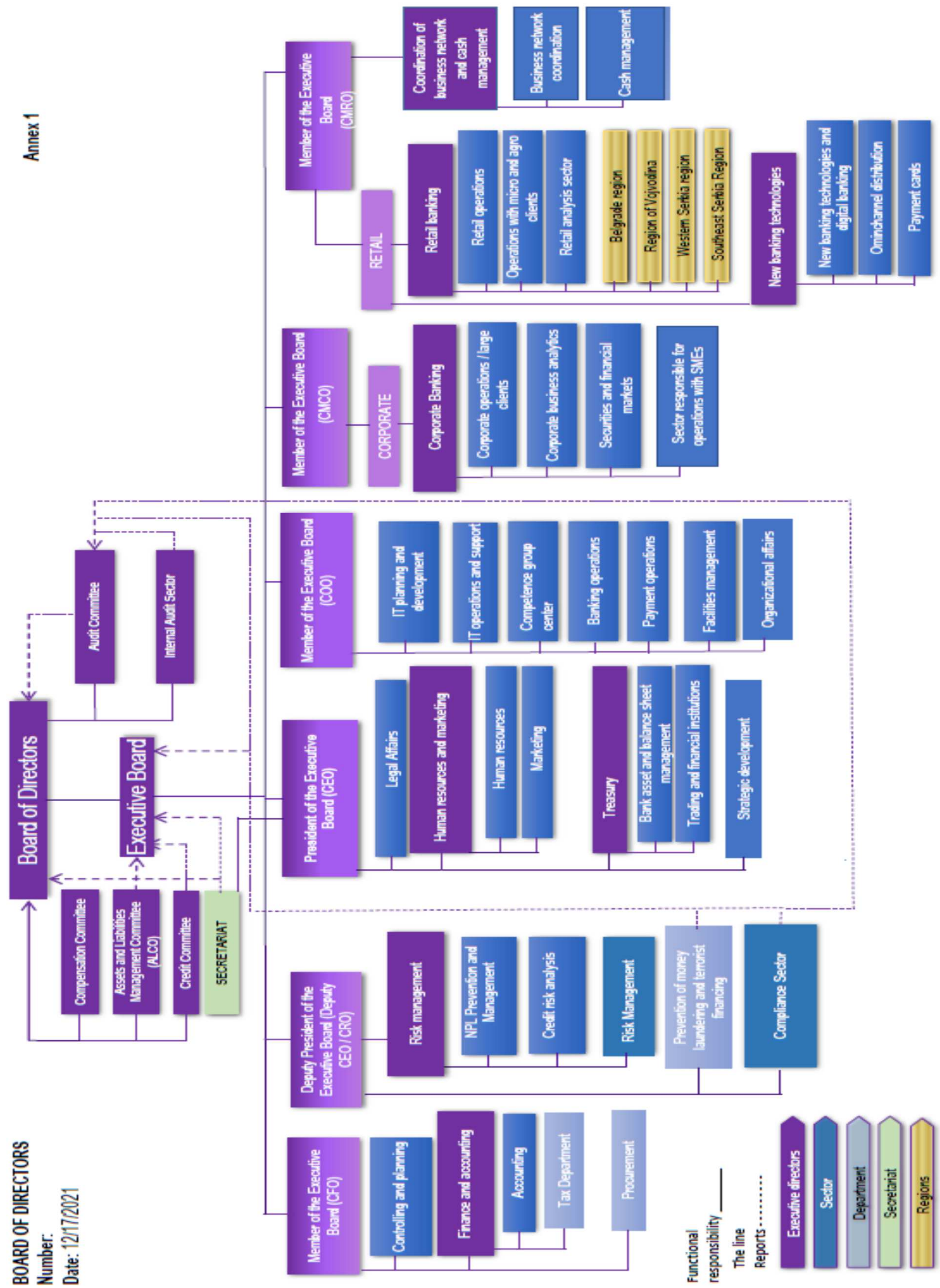
A quorum for activities and decision-making of the Executive Board exists if a meeting is attended by the majority of the total number of members of the Executive Board. The Executive Boards renders decisions by a majority vote of the total number of members.

The Business Operations Monitoring Committee consists of at least three members, of whom at least two are members of the Management Board of the Bank, having the relevant experience in the field of finance. At least one member of the Business Operations Monitoring Committee is a person independent of the Bank. The members are elected to the Committee for a four-year period. Duties of the Business Operations Monitoring Committee are defined in Article 80 of the Law on Banks and Article 34 of the Articles of Association of the Bank.

The members of the Business Operations Monitoring Committee as at June 30, 2022, are:

NAME AND SURNAME	*FUNCTION*
Prof. Dragan Đuričin	*Chairman*
Marko Jerič	*Member*
Igor Zalar	*Member*
Polona Kurtevski	*Member*
Barbara Deželak	*Member*

A quorum for activities and decision-making of the Business Operations Management Committee exists if a meeting is attended by the majority of the total number of members of the Business Operations Management Committee.



Note: Organisational chart of the Bank as at 30.06.2022

FINANCIAL POSITION AND BUSINESS PERFORMANCE OF THE BANK IN THE PERIOD BETWEEN JANUARY 01, AND JUNE 30, 2022

BALANCE SHEET (in 000 RSD)	30.06.22[10]	31.05.22	30.04.22	31.03.22	2021	2020
Balance sheet assets	543,596,528	533,139,904	553,515,788	482,479,610	489,440,405	460,001,399
Off-balance sheet operations	690,605,109	658,729,413	660,392,816	537,929,925	532,084,315	489,305,071
RETAIL						
Loans	167,841,298	166,836,566	165,658,141	124,247,207	118,286,619	108,585,889
Deposits	360,218,575	354,723,715	357,802,038	325,500,061	342,469,159	309,268,562
CORPORATE						
Loans	127,829,115	124,762,916	123,114,964	100,716,538	89,221,890	78,833,152
Deposits	64,228,628	62,103,195	58,964,205	46,938,217	48,646,021	47,765,67

The balance sheet assets of the Bank, as at 30.06.2022, were 543,596.5 million dinars, which means an increase by 54,156.1 million dinars as compared to the end of the previous year.

In the first semi-annual period of 2022, the off-balance sheet assets were increased by 29.8%, i.e. by 158,520.8 million dinars, to reach at the end of June of the current year 690,605.1 million dinars. This increase resulted primarily from the increase in the position of other off-balance sheet item, as a result of the process of integration of the two banks.

The corporate and retail deposits at the end of June 2022 amounted to 424,447.2 million dinars, which means an increase as compared to the beginning of the year by 33,332.0 million dinars, i.e. 8.5%. On the other hand, the amount of loans made to the corporate and retail clients at the end of June 2022 was 295,670.4 million dinars, which means an increase as compared to the beginning of the year by 88,161.9 million dinars, i.e. 42.5%.

The said changes include also the effect of the dinar appreciation against the euro (0.2%) and the British pound (3.0%). The dinar depreciated, from the beginning of this year till the end of Q2 2022, against the US dollar (1.4%) and also against the Swiss franc (3.4%).

The growth in the balance sheet positions is the result of equally successful business in the first six months of the current year, as well as of the integration of two banks, NLB Banka a.d. and Komercijalna banka a.d.

INCOME STATEMENT (in 000 RSD)	30.06.22	31.05.22	30.04.22	31.03.22	2021	2020
Profit/loss before tax	3,660,520	2,623,624	1,477,897	1,842,869	3,463,384	3,798,519
Profit/loss after tax	3,398,464	2,460,062	1,366,662	1,673,399	3,645,699	2,534,434
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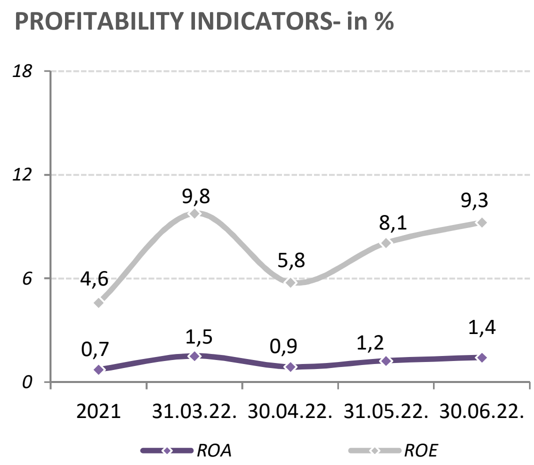
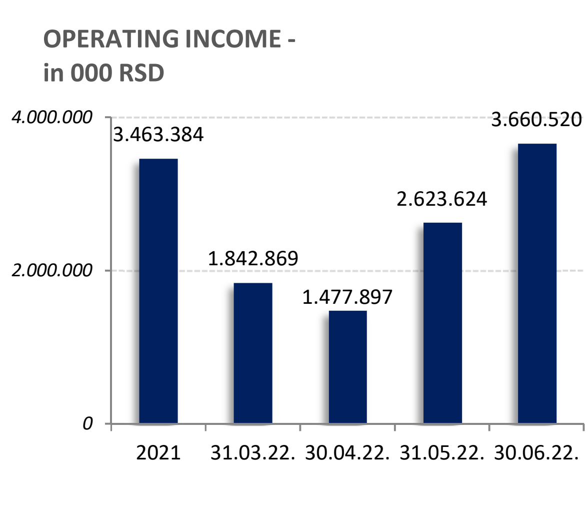
Operating expenses	6,451,254	5,304,919	4,061,824	2,988,906	11,913,487	11,472,051
Net income/expenses from impairment of fin. assets not measured at fair value through the income statement	279,200	(26,711)	(268,343)	71,594	15,772	(1,072,032)

[10] The data stated on the Business Performance Report of the Bank for Q2 2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd. The data stated on the Report by 31.03.2022 are related to Komercijalna banka a.d. Beograd, while the data for the period after 31.03.2022 are related to the integrated NLB Komercijalna banka a.d. Beograd.





During the first six months in 2022, the Bank earned operating income. The said income of the Bank in the period between 01.01.2022 and 30.06.2022 was 3,660.5 million dinars which, in comparison to the same period of the previous year, means an increase of 2,852.9 million dinars. The growth in the income earned by the Bank is a result of successful business operations of the integrated Bank and merger of two individually successful banks into the new, integrated NLB Komercijalna banka. The income so generated ensured to the Bank, over the first semi-annual period of 2022, the return on total equity of 9.3% and the return on the balance sheet assets of 1.4%.

The net interest income, at the end of the first semi-annual period of 2022, was 6,855.6 million dinars, which is by 14.7% more than in the same period of the previous year. The net fee income was 3,689.5 million dinars, which is by 1,099.4 million more than the income earned in the same period of the previous year.

In the first six months of 2022, the Bank earned the net income from impairment of financial assets, which are not measured at fair value through the income statement in the amount of 279.2 million dinars, unlike in the same period of the previous year. During the first semi-annual period of this year, the operating expenses were 6,451.3 million dinars, which is by 878.8 million dinars or 15.8% more than the amount of expenses incurred in the same period of the previous year. The increase in the operating expenses resulted primarily from costs of integration of the two banks and all activities relating to that process. The income movements in the first semi-annual period of 2022, as compared to the same period of the last year, were influenced also by the increase in the amount of other income generated in the first semi-annual period of this year in the amount of 352.2 million dinars, while in the same period of the previous year such income amounted to 107.8 million dinars.

At the same time, there was an increase in the costs of salary, compensation and other personal indemnities, depreciation costs and other expenses from 7,292.5 million dinars in the first semi-annual period of the previous year to the amount of 7,590.2 million dinars in the first semi-annual period of 2022.

The increase in the number of employees in the first semi-annual period of 2022, owing to the integration of the two banks, irrespective of the increased volume of business operations, resulted in a decrease in assets per employee of the Bank, which fell from 206.3 million dinars (as at 31.12.2021), to 200.4 million dinars at the end of the first semi-annual period in 2022.

At the end of the first semi-annual period of the current year, the Cost-to-Income ratio (CIR) was 61.2%, while at the end of 2021 it was 66.6%.

Retail

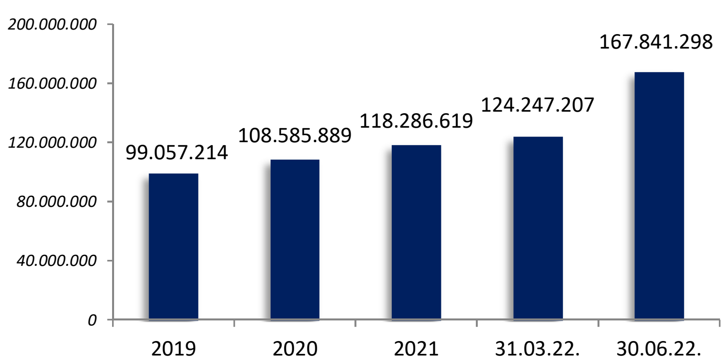
In Q2 2022, the retail segment continued the growing trend and reached, according to the majority of indicators, significant results. The most important goal of business operations was the growth in lending operations in all segments, to form a foundation for a growing increase in the forthcoming period.

Loans

The Bank has continued, in all segments (natural persons, agriculture and micro business) to adjust its offer of lending products, whereby it has significantly upgraded the attractiveness and competitiveness of its offer. In addition to changes in the products, in has been making efforts on a permanent basis to improve the loan making process.

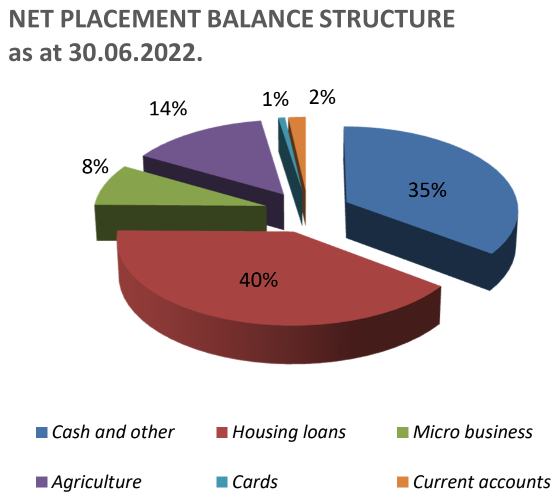
As a result of the undertaken activities and the integration process, in Q2 2022, the net balance of retail placements increased by 43,594.1 million dinars, i.e. 35.1%, while the growth reached as compared to the balance at the end of 2021 was 49,554.7 million dinars, or 41.9%.

RETAIL LOANS - net balance in 000 RSD as at 30.06.2022.



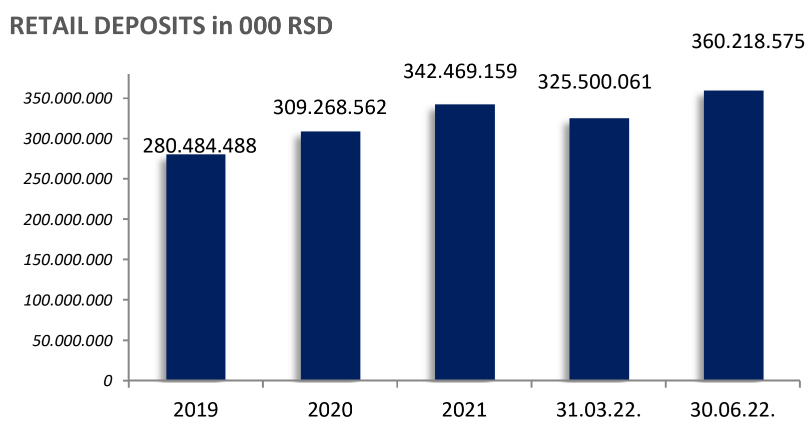
Note: The data on retail loans as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, while the data on the previous periods are related to Komercijalna banka a.d. Beograd.

In the structure of net retail placements, housing loans and cash and other loans stand out by their amount.



Deposits[11]

The Retail deposits are among the highest ones in the market and at the end of Q2 2022 they amounted to 360,218.6 million. It is in particular necessary to emphasize that, following the decline in deposits that took place in the first quarter of 2022, in the second quarter the deposits saw a growth, as a result of integration of the two banks, and reached 34,718.5 million dinars, or 10.7%. As against the beginning of the year, the deposits at the end of the second quarter are higher by 17,749.4 million dinars, or 5.2%.



Note: The data on retail deposits as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, while the data for the previous periods are related to Komercijalna banka a.d. Beograd.

[11] The position deposits does not include other liabilities and funds received through credit lines.

Other products

The Bank offers to its retail clients a whole range of new additional products and services, such as:

- Safe deposit box lease – at 11 locations in the territory of Serbia, the safe deposit box are available for lease to natural persons;
- Foreign currency operations – NLB Komercijalna banka carries out all kinds of foreign currency operations (international incoming and outgoing payments, and foreign currency transfers in the Republic of Serbia);
- Operations with securities - NLB Komercijalna banka provides all kinds of services in the field of broker & dealer and custody operations in the domestic and foreign markets, as well as the option of investing in investment funds;
- Bankassurance operations – NLB Komercijalna banka is the insurance agent of the Company Dunav osiguranje a.d.o. Beograd. As the insurance agent of the said insurance company, the Bank sells the following types of non-life insurance: insurance of construction buildings owned by natural persons, combined household insurance "Čuvar kuće" ("Home Guard") and travel health insurance.

Retail digital and electronic banking services

In accordance with best practices and standards of the Group, the Bank makes constant efforts in the development of digital and electronic banking services in the retail segment.

Since the beginning of this year, to all mBanking application users are available also additional functionalities - DeepLink and PRENESI. PRENESI is a new service, allowing the user to transfer money quickly and easily to other current account, by simply entering the number of the mobile telephone of the recipient of such funds, or by adding the recipient directly from the telephone address book. DeepLink is a service by way of which users can make payments through websites, which have enabled this payment method, using mobile phones to access the website. Through implementation of new functionalities, we have provided to our clients the benefits they may use whenever and wherever they want. The aim is to encourage them to use the mobile banking and instant payment systems even to a greater extent, whereby a big step is made towards further digitalization of NLB Komercijalna banka.

Business network

The Bank operates in the retail segment through 186 branches, which makes us one of the leaders in the market. To our clients are available more than 300 ATMs and more than 13,000 POS terminals, which also makes us one of the front-runners in the market. Taking into account the needs of clients, the Bank has continued to carry on the activities aimed to improve the user experience through improvement of appearance of its branches, adjustment of working hours, and so forth.

Furthermore, efforts are also made in respect of improvement and replacement of the entire ATMs network of NLB Komercijalna banka – a total of 300 new ATM devices will be installed by the end of this year. In the process of purchasing these new ATSs, all the recommended standards of the NLB Group and the highest market standards were observed, to ensure that the Bank will respond to the needs of its clients (contactless, support for more than one currency, QR code reader, etc.). Upon completion of the purchase and replacement of ATM devices, NLB Komercijalna banka will have one of the most safe and modern ATM networks in the Serbian market.

Profitability

As a result of retail operations in the first two quarters of 2022, the Bank has earned the total net income from interest and fee in the amount of 6,768.3 million dinars, which is by 31.5% more than in the same period of 2021.

The appropriate offer of products and goods creates conditions for earning even higher net income in the future.

Corporate

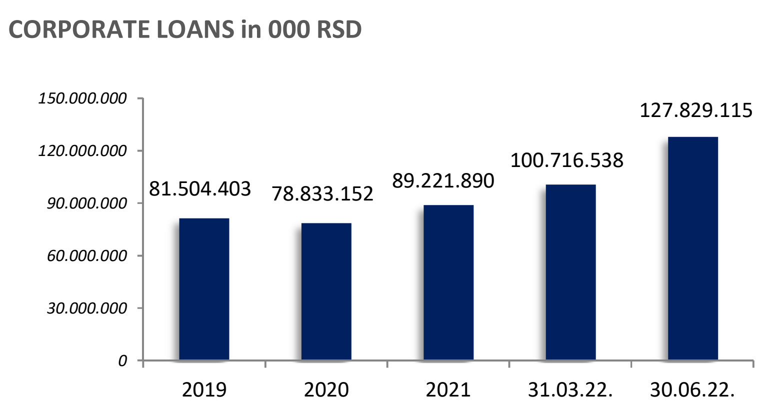
Market - basic trends

The COVID-19 pandemic and global slowdown, according to the available information, have minor effects on Serbia, as compared to most European countries, owing to the achieved macroeconomic and financial stability, previous growth momentum, fiscal space created, timely and comprehensive package of measures, and structure of the economy.
In spite of the tightening of monetary conditions since October 2021, the conditions for corporate loan taking in the domestic market have remained favourable. Interest rates on new corporate loans in RSD are moving around the values which were, on the average, recorded in the last year, and in April they were 3.8%. Interest rates on loans pegged to EUR in the domestic market are also moving closely around the value from 2021.

In the period of first six months in 2022, at the level of banking sector, gross corporate loans (including also gross placements to micro clients) increased by 128.5 billion dinars, i.e. 8.09%.
As at 30.06.2022, the share of NLB Komercijalna banka a.d. Beograd in gross corporate loans at the level of the sector was 8.14%. As at 31.12.2021, the share of Komercijalna banka in gross corporate loans was 6.29%, while the share of NLB Banka Beograd was 1.36% (resulting in the derived joint share of 7.65%).

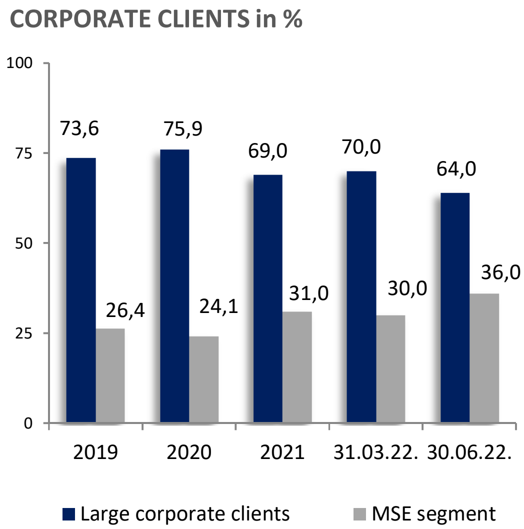
Loans[12]

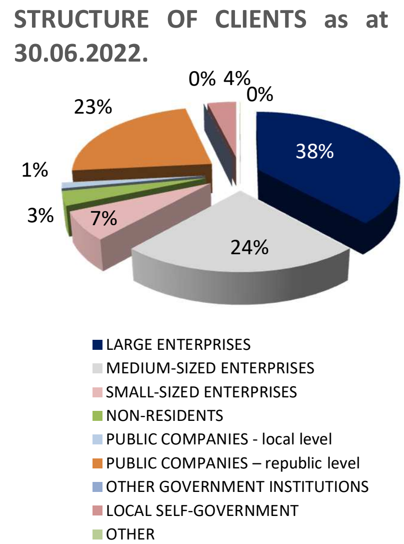
The realisation of newly made loans in the first semi-annual period of 2022 is by 146% higher than in the same period in 2021. As compared to the same period of the last year, a significantly higher level of realisation in the segment of large corporate clients and in the SME segment was reached. The balance sheet portfolio grew by 21% as compared to the beginning of the year, whereas the growth, as against the same period of the last year, was 31%, among other things, as a result of the process of integration of the two banks.



Note: The data on corporate loans as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, whereas the data on the previous periods relate to Komercijalna banka a.d. Beograd.

12 The positon of the loans made does not include other placements.





The average weighted interest rates on the loans disbursed in the Bank in RSD (3.51%) and in EUR (2.32%) in the first semi-annual period of 2022 were at a higher level, as against the loans disbursed in the Bank in 2021 in RSD, and/or at the approximately same level in case of loans pegged to foreign currency (RSD 2.85%; EUR 2.33%).

The average interest rates on the loans disbursed in the market[13] in 2022 were 3.26% in RSD and 2.38% in EUR, while the interest rates in 2021 were RSD 2.88% and EUR 2.31%, i.e. the trend of an increase in dinar interest rates and interest rates pegged to foreign currency is notable.

The interest rate on loans pegged to EUR is still lower, compared to the loans in RSD, which, in the conditions of a stable exchange rate, was a decisive market factor for the increasing demand for loans pegged to foreign currency, compared to the loans in RSD. Of the total number of loans made in 2022, 11% were granted in dinars, whereas 89% were granted through loans pegged to EUR. Accordingly, the share of dinar loans in the total portfolio in 2022 saw a mild drop from 10.8% in 2021 to 9.4%.

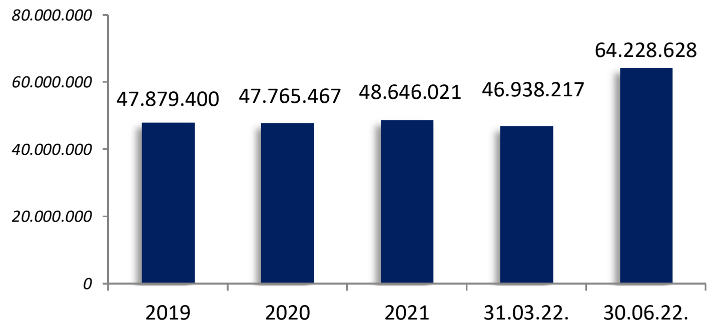
Regarding the competition, during 2022, the most active banks were Banca Intesa a.d. Beograd, UniCredit banka Srbija a.d. Beograd, Raiffeisen banka a.d. Beograd, OTP banka a.d. Beograd.

13 NBS, Overview of interest rates of banks on loans made to Non-Financial Sector, May 2022

Deposits[14]

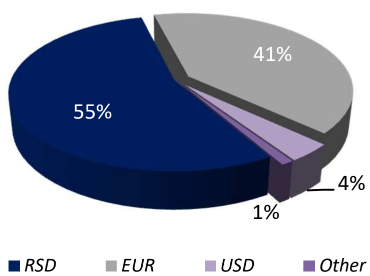
The high share of transaction deposits, being 79% of the total corporate deposits, results in lower interest expense and has positive effects on the business performance of the Bank.

CORPORATE DEPOSITS in 000 RSD

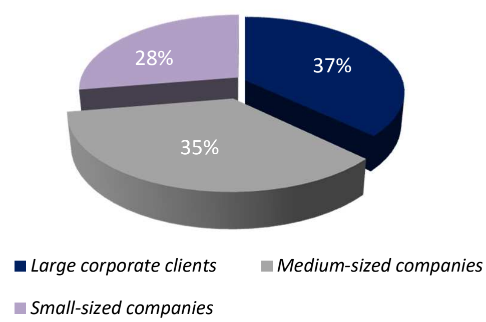


Note: The data on corporate deposits as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, whereas the data on the previous periods are related to Komercijalna banka a.d. Beograd.

STRUCTURE OF DEPOSITS BY CURRENCY as at 30.06.2022.

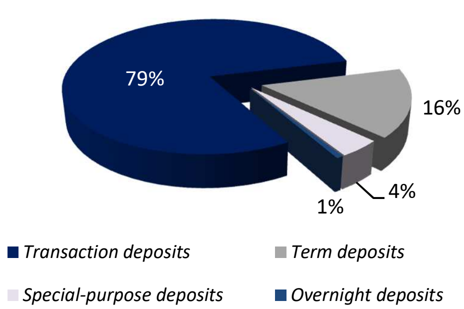


STRUCTURE OF CLIENTS WHO DEPOSITED FUNDS as at 30.06.2022.

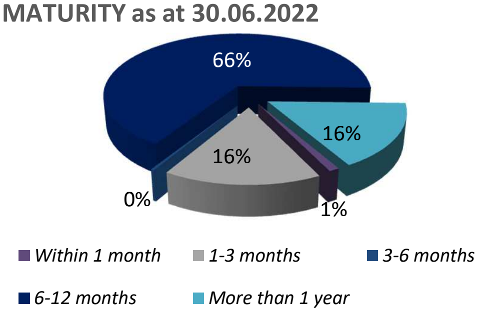


Note: The overview of the structure of clients was made based on the internal client segmentation.

DEPOSIT STRUCTURE BY MATURITY as at 30.06.2022



TERM DEPOSIT STRUCTURE BY MATURITY as at 30.06.2022



14 Position Deposits does not include other liabilities and assets received through credit lines

Cash management

Based on the strategic orientation of the Bank, the activity of the Treasury business function is oriented towards an active cash and liquidity management, to ensure a smooth operation of the Bank and satisfy the business needs of its clients.

The Treasury business function responded to all challenges by providing necessary funds to pay out deposits, fulfil all regulatory requirements, and enhance lending activity of the Corporate and Retail business functions.

More detailed information on the amount, movement and structure of balance sheet items predominantly affecting the liquidity position of the Bank, is set out in the Notes to the Financial Statements for the second quarter, specifically:

- Cash and funds with the central bank – note 3.13;
- Derivative-based receivables – note 3.14;
- Securities - note 3.15;
- Loans and receivables claimed from banks and other financial organisations and loans and receivables claimed from clients – note 3.16;
- Derivative-based liabilities – note 3.20;
- Deposits and other financial liabilities towards banks, other financial organisations and the central bank, and deposits towards other clients – note 3.21, and
- Subordinated liabilities – note 3.22.

The section 5, Risk Management in Chapter 5.2 (Liquidity Risk) of the Notes to the Financial Statements sets out in more detail the topic of liquidity risk management, with particular regard to compliance with externally and internally defined liquidity limits.

BALANCE SHEET AS AT 30.06.2022

Assets of the Bank as at 30.06.2022

Item	30.06.22[15] Amount (in 000 RSD)	31.12.21 Amount (in 000 RSD)	Change in %	index
ASSETS				
Cash and assets held with the central bank	87,685,914	82,055,481	6.9	106.9
Pledged financial assets	-	-	-	-
Receivables under derivatives	12,908	-	-	-
Securities	121,819,448	149,588,755	(18.6)	81.4
Loans and receivables from banks and other financial organisations	15,332,383	29,114,381	(47.3)	52.7
Loans and receivables from clients	297,521,736	209,044,942	42.3	142.3
Changes in fair value of hedged items	-	-	-	-
Receivables under hedging derivatives	-	-	-	-
Investments in affiliated companies and joint ventures	1,488,063	1,488,063	-	100.0
Investments in subsidiaries	140,000	140,000	-	100.0
Intangible assets	603,817	582,101	3.7	103.7
Property, plants and equipment	9,609,009	8,755,659	9.7	109.7
Investment property	2,695,112	2,610,531	3.2	103.2
Current tax assets	-	18,911	(100.0)	-
Deferred tax assets	1,287,585	509,242	152.8	252.8
Fixed assets held for sale and discontinue operations	342,063	101,614	236.6	336.6
Other assets	5,058,490	5,430,725	(6.9)	93.1
TOTAL ASSETS	**543,596,528**	**489,440,405**	11.1	111.1

At the end of the first semi-annual period of 2022, the balance sheet assets of the Bank amounted to 543,596.5 million dinars, which means, as compared to the beginning of the year, an increase by 54,156.1 million dinars, i.e. 11.1% as a result of, inter alia, integration of the two banks.

During the first six months of the current year, the position cash and funds with the central bank was increased by 5,630.4 million dinars, i.e. 6.9%.

The placements in securities at the end of the first semi-annual period of 2022 amounted to 121,819.4 million dinars. As compared to the beginning of the year, the investments in securities decreased by 27,769.3 million dinars, or 18.6%. At the end of June of the current year, the placements in securities accounted for 22.4% of the total balance sheet assets of the Bank.

The loans and accounts receivable claimed from clients amount to 297,521.7 million dinars and, as compared to the balance recorded as at 31.12.2021, are increased by 88,476.8 million dinars, either as a result of integration of the two banks or of the growth in newly made loans. The loans and receivables claimed from clients as at 30.06.2022 account for 54.7% of the balance sheet assets.

[15] The data on assets as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd. The data as at 31.12.2021 are related to Komercijalna banka a.d. Beograd.

The loans and receivables claimed from banks and other financial organisations were cut by 13,782.0 million dinars.
The total placements and receivables claimed from clients and banks as at 30.06.2022 are 312,854.1 million dinars, accounting for 57.6% of the total balance sheet assets of the Bank.

As against the situation as at 31.12.2021 (the balance sheet date), when the deferred tax assets were netted against the deferred tax liabilities, during the business year, the deferred tax assets and the deferred tax liabilities are stated at the gross principle in the envisaged positions within assets and liabilities.

The deferred tax assets, as at 30.06.2022, were 1,287.6 million dinars, i.e. increased by 778.3 million dinars as against the end of 2021. This asset position is explained in more detail in section 3.19 of the Notes to the Financial Statements for Q2 2022.

Liabilities of the Bank as at 30.06.2022

Item	30.06.22[16]	31.12.21		
	in 000 RSD			
	Amount	**Change**	**Change %**	**index**
LIABILITIES				
Liabilities under derivatives	3,358	-	-	-
Deposits and other fin.liabilities to banks, other financial organisations and the central bank	9,641,559	2,134,969	351.6	451.6
Deposits and other fin. liabilities to other clients	437,461,325	403,286,418	8.5	108.5
Liabilities under hedging derivatives	-	-	-	-
Changes in fair value of hedged items	-	-	-	-
Liabilities under securities	-	-	-	-
Subordinated liabilities	1,766,439	-	-	-
Provisions	5,103,627	4,233,853	20.5	120.5
Liabilities under assets held for sale and discontinued operations	-	-	-	-
Current tax liabilities	185,737	-	-	-
Deferred tax liabilities	-	-	-	-
Other liabilities	5,700,863	4,142,443	37.6	137.6
Total liabilities	**459,862,908**	**413,797,683**	11.1	111.1
Equity				
Share capital	45,859,620	40,034,550	14.6	114.6
Treasury shares	31,994	-	-	-
Profit	16,237,069	9,573,620	69.6	169.6
Loss	-	-	-	-
Reserves	21,668,925	26,034,552	(16.8)	83.2
Unrealized loss	-	-	-	-
Non-controlling interest	-	-	-	-
TOTAL EQUITY	**83,733,620**	**75,642,722**	10.7	110.7
TOTAL EQUITY AND LIABILITIES	**543,596,528**	**489,440,405**	11.1	111.1

The total liabilities of the Bank at the end of the first semi-annual period in 2022 were 459,862.9 million dinars, accounting for 84.6% of the total equity and liabilities (as at 31.12.2021, the total liabilities accounted for 84.5% in the Liabilities). At the same time, the total equity was 83,733.6 million dinars, accounting for 15.4% in the total equity and liabilities (as at 31.12.2021, it

[16] The data on Liabilities as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd. The data as at 31.12.2021 are relaed to Komercijalna banka a.d. Beograd.

accounted for 15.5%). The total liabilities increased as compared to the end of the previous year by 46,065.2 million dinars, or 11.1%, while the total equity increased by 8,090.9 million dinars, i.e. 10.7%, as expected, in view of the completion of the process of merger of the two banks.

The total deposits and other financial liabilities towards banks and clients, at the end of the first semi-annual period of 2022, were 447,102.9 million dinars, accounting for 82.2% of the total balance sheet Liabilities. The total deposits and other financial liabilities increased, as against the end of the previous year, inter alia, as a result of integration of the two banks, by 41,681.5 million dinars, or 10.3%.

The position deposits and other financial liabilities to clients increased in the reporting period by 34,174.9 million dinars, i.e. 8.5%, while the position deposits and other financial liabilities to banks increased, as against the end of the previous year, by 7,506.6 million dinars, i.e. 351.6%.

The position other liabilities increased by 1,558.4 million dinars, or 37.6%. The position provisions, during the first semi-annual period of 2022, increased by 869.8 million dinars due to the increase in other provisions. Changes in the position *provisions* are in more detail explained in section 3.23 of the Notes to the Financial Statements.

The liabilities under foreign credit lines at the end of June 2022 were 1,703.4 million dinars and they increased, as against the beginning of the year, by 1,087.5 million dinars.

The change in the position deferred tax assets is explained in more detail in section 3.24 of the Notes to the Financial Statements.

Loans made to clients and deposits of clients as at 30.06.2022

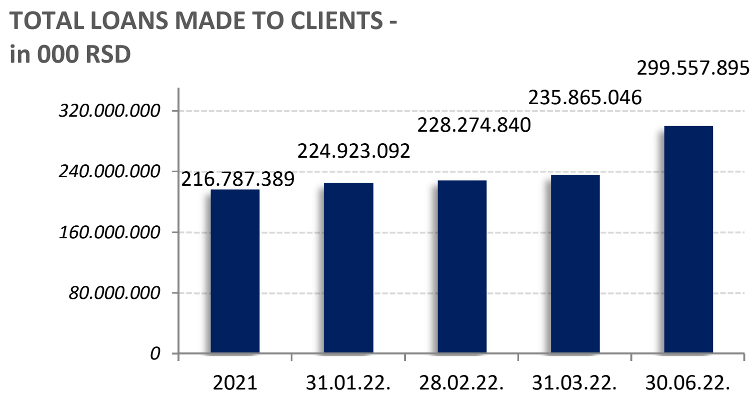
At the end of Q2 2022, the placements to clients amounted to 299,557.9 million dinars, while the deposits taken from clients reached the amount of 444.113,9 million dinars. The movement of loans and deposits in Q2 of 2022 was also influenced by the process of integration of the two banks.

Item	in 000 RSD		
	30.06.22[17]	31.12.21	
	Amount	Amount	Change in %
LOANS MADE TO CLIENTS	**299,557,895**	**216,787,389**	38.2
Corporate	127,829,115	89,221,890	43.3
Retail	167,841,298	118,286,619	41.9
Banks and financial organisations	3,887,482	9,278,880	(58.1)
DEPOSITS TAKEN FROM CLIENTS	**444,113,902**	**403,653,908**	10.0
Corporate	64,228,628	48,646,021	32.0
Retail	360,218,575	342,469,159	5.2
Banks and financial organisations	19,666,699	12,538,729	56.8

Note: the loans made without other placements and receivables, the deposits taken without other liabilities and funds received in the form of credit lines

The most important individual category of the balance sheet assets – the loans made to clients, as against the beginning of the year, increased by 82,770.5 million dinars, i.e. 38.2%. The loans made to client account for 55.1% in the total assets.

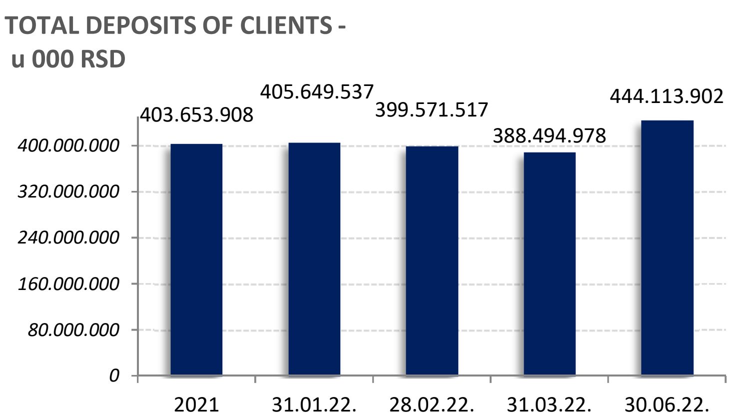
[17] The data on the loans made to clients and on the deposits taken from clients as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd. The data as at 31.12.2021 are related to Komercijalna banka a.d. Beograd.



Note: The data on loans made to clients as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, whereas the data for the previous periods are related to Komercijalna banka a.d. Beograd.

At the end of the first semi-annual period of 2022, the placements to corporate clients reached the amount of 127,829.1 million dinars, which means a growth by 43.3% in comparison to the end of 2021. The placements to retail clients amounted to 167,841.3 million dinars, which means an increase by 41.9% as compared to the end of the previous year. As against the beginning of the year, a decreased is noted in respect of the placements to banks and financial organisations, which reached, at the end of Q2 2022, the amount of 3,887.5, which means a decrease of 58.1%.

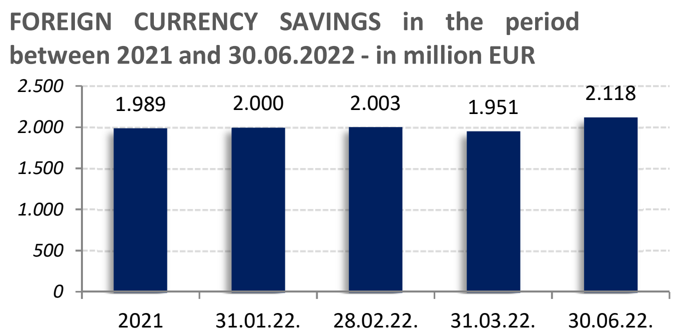
At the end of the first semi-annual period of 2022, the total deposits of clients were 444,113.9 million dinars, accounting for 81.7% of the total Liabilities, i.e. 96.6% of the total liabilities of the Bank.



Note: The data on deposits of clients as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, while the data for the previous periods are related to Komercijalna banka a.d. Beograd.

The total deposits of clients, compared to the beginning of the year, increased by 40,460.0 million dinars, or 10.0%.

In the deposit structure, the retail deposits dominate, reaching the amount of 360,218.6 million dinars and accounting for 81.1% of the total deposits of clients, whereas the corporate deposits are 64,228.6 million dinars, accounting for 14.5% of the total deposits. As compared to the beginning of the year, the deposits of banks and financial organisations increased by 7,128.0 million dinars, or 56.8%. The share of deposits of banks and financial organisations in the total deposits was 4.4% as at 30.06.2022.



Note: The data on foreign currency savings as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, whereas the data on previous periods are related to Komercijalna banka a.d. Beograd.

Irrespective of volatility of deposit interest rates of the banking Sector and of the Bank, the foreign currency savings of clients of the Bank was also preserved at the end of Q2 2022, amounting to 2,118.2 million EUR.

The trust of clients with savings accounts allowed the Bank to keep one of leading positions within the banking sector of the Republic of Serbia by volume of the raised foreign currency savings, image and distinctiveness.

Off-balance sheet items in 2022

Item	in 000 RSD		
	30.06.22[18]	31.12.21	
	Amount	Amount	Change in %
TRANSACTION ON BEHALF AND FOR THE ACCOUNT OF THIRD PARTIES	4,115,104	4,047,859	1.7
UNUSED COMMITMENTS	83,571,560	62,616,255	33.5
DERIVATIVES	14,571,606	0	-
OTHER OFF-BALANCE SHEET ITEMS	588,346,839	465,420,201	26.4
TOTAL	**690,605,109**	**532,084,315**	29.8

The total off-balance sheet assets of the Bank, during the first semi-annual period of 2022, increased by 158,520.8 million dinars, as against the end of 2021.

As at 30.06.2022, the total amount of unused commitments, including guarantees and other surety bonds issued, was 83,571.6 million dinars which, as compared to the end of the previous year, means an increase by 20,955.3 million dinars, or 33.5%, as a result of integration process of the two banks, as well as of an increase in the issued guarantees and other surety bonds, increase in financial assets for securing the liabilities and guarantees and other surety bonds issued in foreign currency.

The transactions on behalf and for the account of third parties, as at 30.06.2022, amounted to 4,115.1 million dinar, so they increased by 67.2 million dinars, i.e. 1.7%, as compared to the end of 2021.

Other off-balance sheet items increased by 122,926.6 million dinars, i.e. by 26.4% as compared to the end of the previous year, as a result of changes in the position other off-balance sheet assets.

As compared to 2021, the derivatives appear as at 30.06.2022 in the amount of 14,571.6 million dinars.

[18] The data on off-balance sheet items as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration of Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd. The data on off-balance sheet items as at 31.12.2021 are related to Komercijalna banka a.d. Beograd.

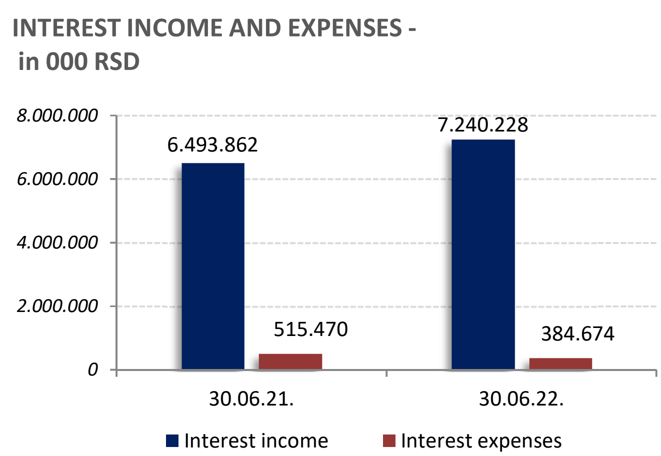
NLB Komercijalna banka

INCOME STATEMENT FOR THE PERIOD BETWEEN JANUARY 1 AND JUNE 30, 2022

Item	in 000 RSD 30.06.22[19] Amount	30.06.21 Amount	Change in %	index
Interest income	7,240,228	6,493,862	11.5	111.5
Interest expense	(384,674)	(515,470)	(25.4)	74.6
Net interest income/expense	**6,855,554**	**5,978,392**	14.7	114.7
Fee and commission income	4,767,020	3,446,860	38.3	138.3
Fee and commission expenses	(1,077,524)	(856,791)	25.8	125.8
Net fee and commission income / expenses	**3,689,496**	**2,590,069**	42.4	142.4
Net profit from/loss on change in fair value of financial instruments	11,734	1,364	760.3	860.3
Net profit from/loss on reclassification of FIs	-	-	-	-
Net profit from/loss on derecogniton of FIs measured at fair value	(63,034)	129,754	-	-
Net profit from/loss on hedging	-	-	-	-
Net income from/expense on exchange rate and income from/expense on agreed currency clause	(137,896)	31,237	-	-
Net income from/expense on impairment of financial assets not measured at fair value through the income statement	279,200	(853,523)	-	-
Net profit from/loss on derecognition of FIs measured at amortised cost	86,194	-	-	-
Net profit from/loss on derecognition of investments in affiliated companies and joint ventures	-	-	-	-
Other operating income	177,304	114,995	54.2	154.2
TOTAL NET OPERATING INCOME	**10,898,552**	**7,992,288**	36.4	136.4
TOTAL NET OPERATING EXPENSE	-	-	-	-
Salaries, compensation and other personal indemnities	(2,727,824)	(2,372,498)	15.0	115.0
Depreciation costs	(540,568)	(447,903)	20.7	120.7
Other income	352,191	107,774	226.8	326.8
Other expenses	(4,321,831)	(4,472,087)	(3.4)	96.6
PROFIT BEFORE TAX	**3,660,520**	**807,574**	353.3	453.3
LOSS BEFORE TAX	-	-	-	-
Tax on profit	204,648	-	-	-
Profit from deferred taxes	115,740	182,952	(36.7)	63.3
Loss on deferred taxes	173,148	46,177	275.0	375.0
PROFIT AFTER TAX	**3,398,464**	**944,349**	259.9	359.9
LOSS AFTER TAX	-	-	-	-
Net profit from discontinued operations	-	-	-	-
Net loss from discontinued operations	-	-	-	-
RESULT FOR THE PERIOD – PROFIT	**3,398,464**	**944,349**	259.9	359.9
RESULT FOR THE PERIOD – LOSS	-	-	-	-

[19] The data stated on the income statement for the period 01.01 - 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd i NLB Banka a.d. Beograd, i.e. the result achieved over the first six months 2022 does not contain the income statement of NLB Banka a.d. Beograd for the first four months in 2022 (the performance for the four months is recognized through the capital of the integrated NLB Komercijalna banka a.d. Beograd).
The data on the performance stated on the income statement for the period 01.01. – 30.06.2021 are related to Komercijalna banka a.d. Beograd.

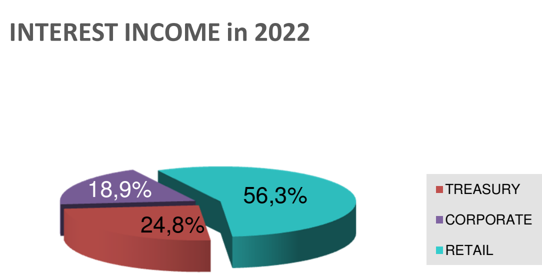
Interest income and expenses

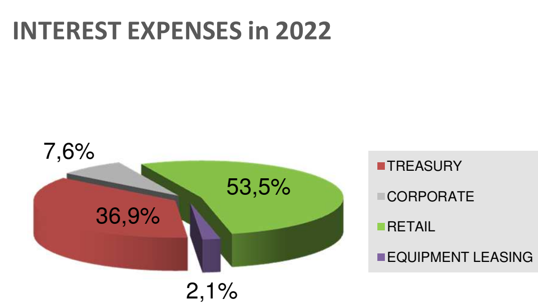


Note: The data on income and expense as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, while the data as at 30.06.2021 are related to Komercijalna banka a.d. Beograd.

During the first semi-annual period of 2022, the net income earned from interest was 6,855.6 million dinars, which, as compared to the same period of the last year, is an increase of 14.7%.

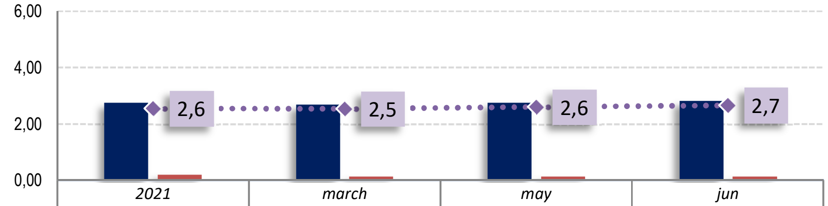
As against the first semi-annual period of the last year, the interest income is higher by 746.4 million dinars, i.e. by 11.5%, partly owing to the efforts made by all employees to achieve the desired results, partly owing to the integration of the two banks, while the interest expense is lower by 130.8 million dinars, i.e. by 25.4%.





Within the interest income, the major share is related to the interest income arising out of retail operations (4,073.1 million dinars, or 56.3%). Within the interest expense, also predominates the retail deposit interest (205.8 million dinars, or 53.5%), which is mostly the result from the expense on income on the foreign currency savings.

MOVEMENT OF INTEREST MARGIN ON THE TOTAL ASSETS - in %

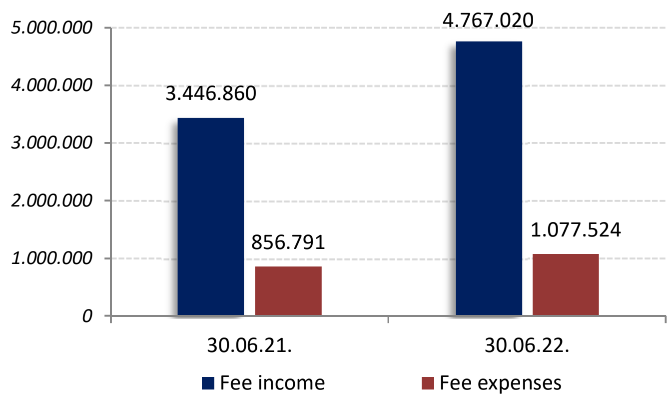


	2021	march	may	jun
Average lending interest rate	2,75	2,69	2,75	2,81
Average deposit interest rate	0,20	0,15	0,15	0,15
Average interest margin	2,55	2,54	2,61	2,66

Note: The data on interest margin for May and June 2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, while the data for March 2022 and 2021 are related to Komercijalna banka a.d. Beograd.

Fee income and expenses

FEE INCOME AND EXPENSE - in 000 RSD

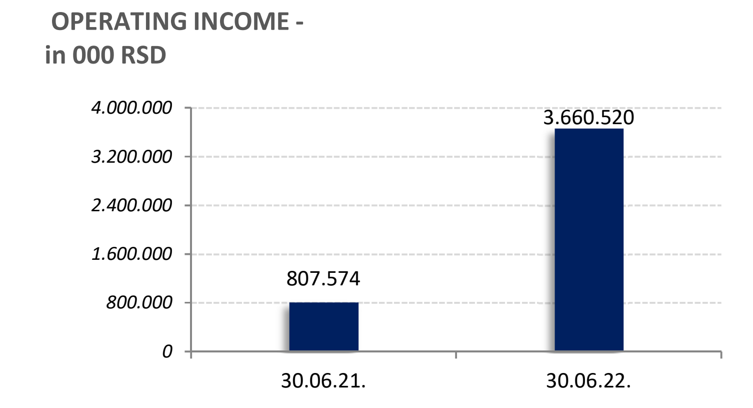


Note: The data on income and expense as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, while the data as at 30.06.2021 are related to Komercijalna banka a.d. Beograd.

During the first semi-annual period of 2022, in comparison to the same period of the last year, the fee and commission income for banking services increased by 1,320.2 million dinars, i.e. by 38.3%. Simultaneously, the fee and commission expenses increased by 220.7 million dinars, i.e. by 25.8%

The profit from fee and commissions for the first semi-annual period of 2022 was 3,689.5 million dinars, that is, higher by 1,099.4 million dinars as compared to the same period of the last year. In addition to the effects of operations, the increase in the net income results also from integration of the two banks.

Operating income



Note: The data on operating income as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration between Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd, while the data as at 30.06.2021 are related to Komercijalna banka a.d. Beograd.

In the period between January 1 and June 30, 2022, the income from business operations amounted to 3,660.5 million dinars, which means an increase by 2,852.9 million dinars, as against the same period of the previous year.

Performance indicators prescribed by the Law on Banks

	Prescribed	30.06.2022[20]	2021
CAPITAL ADEQUACY RATIO (CAPITAL / RISK-WEIGHTED ASSETS); *PART UNDER THE DECISION OF THE NBS	MIN 8.0%+drs*	24.16%	28.55%
INDICATOR OF INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR AND IN FIXED ASSETS	MAX 60%	16.88%	17.40%
BANK HIGH EXPOSURE INDICATOR	MAX 400%	56.24%	17.14%
FOREIGN EXCHANGE RISK INDICATOR	MAX 20%	4.30%	2.00%
LIQUIDITY RATIO (monthly, last day of a month)	MIN 0.8	3.07	3.88

Notes: In line with the NBS regulations, the Bank calculates a capital conservation buffer, capital buffer for systemically important banks and structural systemic risk buffer.

The achieved capital adequacy indicator is above the regulatory limit determined by the National Bank of Serbia.

[20] The data as at 30.06.2022 are related to NLB Komercijalna banka a.d. Beograd formed by integration of Komercijalna banka a.d. Beograd and NLB Banka a.d. Beograd. The data for 2021 are related to Komercijalna banka a.d. Beograd.

DESCRIPTION OF MAJOR RISKS AND THREATS THE COMPANY IS EXPOSED TO

A detailed description of major risks and threats the Bank will be exposed to in the forthcoming period is set out in section 5: Risk Management of Notes to the Financial Statements for Q2 2022.

ALL MAJOR TRANSACTIONS WITH RELATED PARTIES

The related parties of the Bank, as at 30.06.2022, are:

1. Nova Ljubljanska banka d.d. Ljubljana, Slovenia
2. NLB Banka a.d. Podgorica, Montenegro,
3. NLB Banka a.d. Banja Luka, Bosnia and Herzegovina,
4. KOMBANK INVEST a.d. Beograd, Serbia
5. Seven legal entities and a large number of natural persons, according to the provisions of Article 2 of the Law on Banks to the extent they regulate the term «related persons of a bank».

The total exposure to persons related to the Bank, as at 30.06.2022, amounted to 17,768.6 million dinars which, in relation to the regulatory capital[21] of 72,903.4 million dinars, was equal to 24.37% (the maximum amount of total placements to all related persons of the Bank, according to the Law on Banks, is 25% of the capital).

The major individual exposure to related persons of the Bank (in accordance with the NBS methodology for overview of exposure to related parties of the Bank), as at 30.06.2022, is the exposure in the amount of 15,614.3 million dinars, i.e. 21.42% of the regulatory capital of the Bank.

In accordance with Article 37 of the Law on Banks, the Bank did not make loans to any person related to it under conditions more favourable than those for loan making to other persons not related to the Bank.

[21] Capital calculated in accordance with the regulations of the National Bank of Serbia

DESCRIPTION OF MAJOR EVENTS FOLLOWING THE END OF THE BUSINESS YEAR

Between December 31, 2021 and the end of June 2022, among major business events, we could emphasize that four extraordinary meetings and one annual general meeting of the Bank were held.
At the extraordinary General Meeting of shareholders of the Bank, held on 02.02.2022, the following resolutions were passed:

1. Resolution on Amendments of the Memorandum of Association;
2. Resolution on Adoption of the Articles of Association of NLB Komercijalna banka AD Beograd
3. Resolution on Approval of the Merger of NLB Banka AD Beograd to Komercijalna banka AD Beograd.

On 25.02.2022, a new extraordinary General Meeting of shareholders of the Bank was held. The following resolution was rendered at this extraordinary General Meeting of the Bank:

1. Resolution on Amendments of the Resolution on Acquisition of Treasury Shares of the Bank from Non-Consenting Shareholders.

The third extraordinary General Meeting of shareholders of the Bank was appointed for, and held on, 13.04.2022. At the General Meeting of shareholders of the Bank, the following resolution was passed:

1. Resolution on Amendments of the Resolution Amending the Memorandum of Association.

The Annual General Meeting of shareholders of the Bank was appointed for, and held on, 18.04.2022.
At the General Meeting of shareholders of the Bank, the following resolutions were passed:

1. Resolution on adoption of the Annual Business Performance Report and of the annual financial statements of Komercijalna banka AD Beograd for the year 2021, with the external auditor's opinion;
2. Resolution on adoption of the Annual Business Performance Report of the Group and of the consolidated financial statements of the Group Komercijalna banka AD Beograd for the year 2021, with the external auditor's opinion;
3. Resolution on distribution of profits from 2021 and retained earnings from previous years;
4. Resolution on sale (disposal) of treasury shares of Komercijalna banka AD Beograd;
5. Resolution on adoption of the Business Strategy and Plan of Komercijalna banka AD Beograd for 2022-2026.

On 29.04.2022, Komercijalna banka a.d. Beograd completed the process of integration with NLB Banka a.d. Beograd and adequately conducted the status change through merger of NLB Banks a.d. Beograd with Komercijalna banka a.d. Beograd, within the meaning of Article 486 of the Company Law.

Like other countries in Europe, in the first semi-annual period of 2022, Serbia is still facing the corona virus COVID-19 pandemic, though less intense than in the previous period. The Bank, in accordance with legal regulations and recommendations of public health institutions, has been still applying all measures as necessary for carrying on business activities in such changed conditions smoothly, with full protection of its employees and clients of the Bank.

A new issue and cause of new political, economic, energy and security turmoil in Europe is the war in Ukraine, since February 2022.

The fourth extraordinary General Meeting of shareholders of the Bank was appointed for, and held on, 29.06.2022. At the General Meeting of shareholders of the Bank, the following resolutions were passed:

1. Resolution on the compulsory acquisition of shares;
2. Information on remuneration to the members of the Management and Executive Boards of NLB Komercijalna banka a.d. Beograd in 2021 and delivery of information under Article 77 and 78 of the Law on Banks;
3. Resolution on adoption of financial statements as at the date of registration of the status change, including the external auditor's opinion.

On 04.07.2022, the Bank announced the Notice to Shareholders on Compulsory Acquisition of Shares of NLB Komercijalna banka a.d. Beograd.
On 14.07.2022, the Bank announced the Notice of Disposal of Treasury Shares.

On 29.07.2022. was sent invitation for the extraordinary General Meeting of Shareholders of NLB Komercijalna banka AD Beograd (will be held on 22.08.2022.) with the draft agenda:

1. Decision on withdrawal of shares of NLB Komercijalna banka AD Beograd from the regulated market and termination of its capacity of a public company.

The description of the events following the balance sheet date is presented in section 6 of the Notes to the Financial Statements for Q2 2022.

BASIC INFORMATION ON THE REALISATION OF THE BUSINESS PLAN FOR THE YEAR 2022

The business year 2021 and the first semi-annual period of 2022 were marked by the ongoing pandemic of coronavirus disease (COVID-19), of a lower intensity and by the macroeconomic and financial stability[22] achieved, which is largely in line with expectations the Bank had during the preparation of the Business Plan for 2022.

Planned and reached values on the balance sheet for Q2 2022

At the end of Q2 2022, the total balance sheet assets of the Bank amounted to 543,597 million dinars and, as compared to the planned value for the end of the year, it is by lower by 52,978 million dinars, i.e. by 8.9%.

The investment in securities as at 30.06.2022 amounted to 121,819 million dinars, thus being by 32,061 million dinars or 20.8% below the amount planned for the whole year.

The loans made to clients at the end of Q2 of 2022 amounted to 299,558 million dinars, which is slightly below the annual plan.

The total deposits at the end of Q2 of 2022 reached the amount of 444,114 million dinars, which is by 47,641 million or 9.7% below the annual plan.

22 NBS, Macroeconomic Developments in Serbia, June 2022

Planned and reached values on the income statement for the period between January 01 and June 30, 2022

In the period 01.01 - 30.06.2022, the Bank generated profit before tax in the amount of 3,660 million dinars, which is by 22 million dinars or 0.6% above the planned amount, while the generated profit after tax was 3,398 million dinars, being higher than the planned amount by 98 million dinars, or 3.0%.

Signed on behalf of NLB Komercijalna banka a.d. Beograd

____________________	____________________
Svetlana Todorović	Dejan Janjatović
Executive Director of the Division	Deputy Chairman of the Executive Board

BALANCE SHEET

on 30.06.2022.

(in RSD thousand)

POSITION	ADP code	Amount	
		Current year ammount	Previous year ammount
1	2	3	4
ASSETS			
ASSETS Cash and assets held with central bank	0001	87.685.914	82.055.481
Pledged financial assets	0002	-	-
Receivables under derivatives	0003	12.908	-
Securities	0004	121.819.448	149.588.755
Loans and receivables from banks and other financial organisations	0005	15.332.383	29.114.381
Loans and receivables from clients	0006	297.521.736	209.044.942
Change in fair value of hedged items	0007	-	-
Receivables under hedging derivatives	0008	-	-
Investments in associated companies and joint ventures	0009	1.488.063	1.488.063
Investments into subsidiaries	0010	140.000	140.000
Intangible investments	0011	603.817	582.101
Property, plant and equipment	0012	9.609.009	8.755.659
Investment property	0013	2.695.112	2.610.531
Current tax assets	0014	-	18.911
Deferred tax assets	0015	1.287.585	509.242
Non-current assets held for sale and discontinued operations	0016	342.063	101.614
Other assets	0017	5.058.490	5.430.725
TOTAL ASSETS (from 0001 to 0017)	0018	543.596.528	489.440.405
LIABILITIES			
LIABILITIES Liabilities under derivatives	0401	3.358	-
Deposits and other liabilities to banks, other financial organisations and central bank	0402	9.641.559	2.134.969
Deposits and other financial liabilities to clients	0403	437.461.325	403.286.418
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	1.766.439	-
Provisions	0408	5.103.627	4.233.853
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	185.737	-
Deferred tax liabilities	0411	-	-
Other liabilities	0412	5.700.863	4.142.443
TOTAL LIABILITIES (from 0401 to 0412)	0413	459.862.908	413.797.683
CAPITAL			
CAPITAL Share capital	0414	45.859.620	40.034.550
Own shares	0415	31.994	-
Profit	0416	16.237.069	9.573.620
Loss	0417	-	-
Reserves	0418	21.668.925	26.034.552
Unrealized losses	0419	-	-
Non-controlling participation	0420	-	-
TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0	0421	83.733.620	75.642.722
TOTAL CAPITAL SHORTFALL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0	0422	-	-
TOTAL LIABILITIES (0413 + 0421 - 0422)	0423	543.596.528	489.440.405

INCOME STATEMENT

from 01.01.2022. to 30.06.2022.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.04.-30.06.	01.01.-30.06.	01.04.-30.06.	01.01.- 30.06
1	2	3*	4**	5*	6*
Interest income	1001	3.962.759	7.240.228	3.275.209	6.493.862
Interest expenses	1002	204.540	384.674	248.790	515.470
Net interest gains (1001-1002)	1003	3.758.219	6.855.554	3.026.419	5.978.392
Net interest losses (1002-1001)	1004	-	-	-	-
Income from fees and commissions	1005	2.555.144	4.767.020	1.826.303	3.446.860
Expenses on fees and commissions	1006	530.417	1.077.524	442.343	856.791
Net gains from fees and commissions (1005 - 1006)	1007	2.024.727	3.689.496	1.383.960	2.590.069
Net losses on fees and commissions (1006 - 1005)	1008	-	-	-	-
Net gains from changes in fair value of financial instruments	1009	10.400	11.734	-	1.364
Net losses from changes in fair value of financial instruments	1010	-	-	51.271	-
Net gains on reclassification of financial instruments	1011	-	-	-	-
Net losses on reclassification of financial instruments	1012	-	-	-	-
Net gains from derecognition of the financial instruments measured at fair value	1013	-	-	22.666	129.754
Net losses on derecognition of the financial instruments measured at fair value	1014	2.921	63.034	-	-
Net gains from hedging	1015	-	-	-	-
Net losses on hedging	1016	-	-	-	-
Net exchange rate gains and gains from agreed currency clause	1017	-	-	19.732	31.237
Net exchange rate losses and losses on agreed currency clause	1018	117.766	137.896	-	-
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	207.606	279.200	399.314	-
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	-	-	-	853.523
Net gains from derecognition of the financial instruments measured at amortised cost	1021	-	86.194	-	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	-	-	-	-
Net gains from derecognition of investments in associated companies and joint ventures	1023	-	-	-	-
Net losses on derecognition of investments in associated companies and joint ventures	1024	-	-	-	-
Other operating income	1025	74.896	177.304	51.594	114.995
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	5.955.161	10.898.552	4.852.414	7.992.288
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1027	-	-	-	-
Salaries, salary compensations and other personal expenses	1028	1.473.665	2.727.824	1.194.260	2.372.498
Depreciation costs	1029	286.962	540.568	216.565	447.903
Other income	1030	202.707	352.191	40.421	107.774
Other expenses	1031	2.579.590	4.321.831	2.866.869	4.472.087
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	1.817.651	3.660.520	615.141	807.574
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0	1033	-	-	-	-
Profit tax	1034	129.326	204.648	-	-
Gains from deferred taxes	1035	114.736	115.740	169.342	182.952
Losses on deferred taxes	1036	77.996	173.148	46.177	46.177
PROFIT AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0	1037	1.725.065	3.398.464	738.306	944.349
LOSSES AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) < 0	1038	-	-	-	-
Net profit from discontinued operations	1039	-	-	-	-
Net losses on discontinued operations	1040	-	-	-	-
RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1041	1.725.065	3.398.464	738.306	944.349
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-	-	-
Profit belonging to a parent entity	1043	-	-	-	-
Profit belonging to non-controlling owners	1044	-	-	-	-
Losses belonging to a parent entity	1045	-	-	-	-
Losses belonging to non-controlling owners	1046	-	-	-	-
EARNINGS PER SHARE					
Basic earnings per share (in dinars, without paras)	1047	-	-	-	-
Diluted earnings per share (in dinars, without paras)	1048	-	-	-	-

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

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

STATEMENT OF OTHER COMPREHENSIVE RESULT

from 01.01.2022. to 30.06.2022.

(in RSD thousand)

POSITION	ADP code	Amount: Current year 01.04.-30.06.	Amount: Current year 01.01.-30.06.	Amount: Previous year 01.04.-30.06.	Amount: Previous year 01.01.-30.06.
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	1.725.065	3.398.464	738.306	944.349
LOSS FOR THE PERIOD	2002	-	-		-
Other comprehensive income for the period **Components of other comprehensive income which cannot be reclassified to profit or loss:** Increase in revaluation reserves based on intangible assets and fixed assets	2003	-	-	-	-
Decrease in revaluation reserves based on intangible assets and fixed assets	2004	-	-	-	-
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	-	-	131.423	200.531
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	162.893	79.903	-	-
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	-	-	224.062	137.526
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	3.141.778	5.117.299	-	9.491
Gains from cash flow hedges	2017	-	-	-	-
Losses from cash flow hedges	2018	-	-	-	-
Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019	-	-	-	-
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	-	-	-	-
Unrealised gains from hedge of net investments in foreign operations	2021	-	-	-	-
Unrealised losses from hedge of net investments in foreign operations	2022	-	-	-	-
Unrealised gains from other hedging instruments	2023	-	-	-	-
Unrealised losses from other hedging instruments	2024	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2025	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2026	-	-	-	-
Tax gains relating to other comprehensive income for the period	2027	495.839	779.719	-	1.424
Tax losses relating to other comprehensive income for the period	2028	-	-	53.323	50.709
Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) ≥ 0	2029	-	-	302.162	279.281
Total negative comprehensive income 2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) < 0	2030	2.808.832	4.417.483	-	-
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	-	-	1.040.468	1.223.630
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	1.083.767	1.019.019	-	-
Total positive comprehensive income for the period attributable to the parent entity	2033	-	-	-	-
Total positive comprehensive income for the period attributable to non-controlling owners	2034	-	-	-	-
Total negative comprehensive income for the period attributable to the parent entity	2035				
Total negative comprehensive income for the period attributable to non-controlling owners	2036				

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

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

STATEMENT OF CHANGES IN EQUITY

from 01.01.2022. to 30.06.2022.

(in RSD thousand)

ITEM	ADP code	Share capital and other equity (accounts 800, 801,803, 809)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (group of accounts 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Non-controlling participation	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)<0
1		2		3		4		5		6		7		8		9		10		11		12
Opening balance as at 1 January of the previous year	4001	17.191.466	4033	0	4065	22.843.084	4097	22.147.207	4129	6.585.755	4147	0	4165	5.893.027	4203		4241		4285	74.660.539	4291	
Effects of the first implementation of new IFRS - increase	4002		4034		4066		4098		4130		4148		4166		4204		4242			x		x
Effects of the first implementation of new IFRS – decrease	4003		4035		4067		4099		4131		4149		4167		4205		4243			x		x
Changes in accounting policies and correction of prior period error – increase	4004		4036		4068		4100		4132		4150		4168		4206		4244			x		x
Changes in accounting policies and correction of prior period error – decrease	4005		4037		4069		4101		4133		4151		4169		4207		4245			x		x
The adjusted opening balance as at 1 January of the previous year (No 1+2-3)	4006	17.191.466	4038	0	4070	22.843.084	4102	22.147.207	4134	6.585.755	4152	0	4170	5.893.027	4208	0	4246		4286	74.660.539		
Total positive other comprehensive income for the period		x		x		x		x	4135		4153			x	x	x	4247			x		x
Total negative other comprehensive income for the period		x		x		x		x	4136	2.698.410	4154			x	x	x	4248			x		x
Profit for the current year		x		x		x		x		x		x	4171	3.645.699	x	x	4249			x		x
Loss for the current year		x		x		x		x		x		x		x	4209		4250			x		x
Transfer from provisions to retained earnings due to provisions reversal – increase		x		x		x		x		x		x	4172		4210		4251			x		x
Transfer from provisions to retained earnings due to provisions reversal – decrease		x		x		x		x		x		x	4173		4211		4252			x		x
Transactions with owners recognized directly in equity – increase	4007		4039		4071		4103			x		x	4174		4212		4253			x		x
Transactions with owners recognized directly in equity – decrease	4008		4040		4072		4104			x		x	4175		4213		4254			x		x
Distribution of profit – increase	4009		4041		4073		4105			x		x	4176		4214		4255			x		x
Distribution of profit and/or coverage of losses – decrease	4010		4042		4074		4106			x		x	4177		4215		4256			x		x
Dividend payments	4011		4043		4075		4107			x		x	4178		4216		4257			x		x
Other – increase	4012		4044		4076		4108			x		x	4179	34.894	4217		4258			x		x
Other – decrease	4013		4045		4077		4109			x		x	4180		4218		4259			x		x
Total transactions with owners (No 11-12+13-14-15+16-17)≥ 0	4014	0	4046	0	4078	0	4110	0		x		x	4181	34.894	4219	0	4260			x		x
Total transactions with owners (No 11-12+13-14-15+16-17) < 0	4015	0	4047	0	4079	0	4111	0		x		x	4182	0	4220	0	4261			x		x
Balance as at 31 December of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)	4016	17.191.466	4048	0	4080	22.843.084	4112	22.147.207	4137	3.887.345	4155	0	4183	9.573.620	4221	0	4262		4287	75.642.722	4293	
Opening balance as at 1 January of the current year	4017	17.191.466	4049	0	4081	22.843.084	4113	22.147.207	4138	3.887.345	4156	0	4184	9.573.620	4222	0	4263		4288	75.642.722	4294	
Effects of the first implementation of new IFRS - decrease	4018		4050		4082		4114		4139		4157		4185		4223		4264			x		x
Effects of the first implementation of new IFRS - decrease	4019		4051		4083		4115		4140		4158		4186		4224		4265			x		x
Changes in accounting policies and correction of prior period error – increase	4020		4052		4084		4116		4141		4159		4187		4225		4266			x		x
Changes in accounting policies and correction of prior period error – decrease	4021		4053		4085		4117		4142		4160		4188		4226		4267			x		x
Adjusted opening balance as at 1 January of the current year (No 21+22-23)	4022	17.191.466	4054	0	4086	22.843.084	4118	22.147.207	4143	3.887.345	4161	0	4189	9.573.620	4227	0	4268		4289	75.642.722	4295	
Total positive other comprehensive income for the perio		x		x		x		x	4144		4162			x	x	x	4269			x		x
Total negative other comprehensive income for the period		x		x		x		x	4145	3.887.345	4163	478.282		x	x	x	4270			x		x
Profit for the current year		x		x		x		x		x		x	4190	3.398.464	x	x	4271			x		x
Loss for the current year		x		x		x		x		x		x		x	4228		4272			x		x
Transfer from provisions to retained earnings due to provisions reversal – increase		x		x		x		x		x		x	4191		4229		4273			x		x
Transfer from provisions to retained earnings due to provisions reversal – decrease		x		x		x		x		x		x	4192		4230		4274			x		x
Transactions with owners recognized directly in equity – increase	4023	1.658.430	4055	455.060	4087	4.166.640	4119			x		x	4193	1.857.914	4231		4275			x		x
Transactions with owners recognized directly in equity – decrease	4024		4056	487.054	4088		4120			x		x	4194	1.748.041	4232		4276			x		x
Distribution of profit – increase	4025		4057		4089		4121			x		x	4195		4233		4277			x		x
Distribution of profit and/or coverage of losses – decrease	4026		4058		4090		4122			x		x	4196		4234		4278			x		x
Dividend payments	4027		4059		4091		4123			x		x	4197		4235		4279			x		x
Other – increase	4028		4060		4092		4124			x		x	4198	3.155.112	4236		4280			x		x
Other – decrease	4029		4061		4093		4125			x		x	4199		4237		4281			x		x
Total transactions with owners (No 31-32+33-34-35+36- 37)≥ 0	4030	1.658.430	4062	0	4094	4.166.640	4126	0		x		x	4200	3.264.985	4238	0	4282			x		x
Total transactions with owners (No 31-32+33-34-35+36- 37) < 0	4031	0	4063	31.994	4095	0	4127	0		x		x	4201	0	4239	0	4283			x		x
Balance as at 30 June of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)	4032	18.849.896	4064	31.994	4096	27.009.724	4128	22.147.207	4146	0	4164	478.282	4202	16.237.069	4240	0	4284		4290	83.733.620	4296	

NLB Komercijalna banka

NOTES

WITH THE FINANCIAL STATEMENTS FOR THE SECOND QUARTER 2022

Belgrade, August 2022

1. INCORPORATION AND OPERATION OF THE BANK

Komercijalna Banka a.d., Beograd (hereinafter referred to as "Bank") was incorporated on 1st December 1970, and transformed into a joint-stock company on 6th May 1992. The Bank was registered at the Commercial Court in Belgrade on July 10th, 1991 and was legally reregistered at the Business Registers Agency on April 14th, 2006. The Bank was granted a license for banking activity by the National Bank of Yugoslavia on July 3rd, 1991.

The largest stake in the Bank's controlling shares is owned by 91.73 %

By signing the Contract on the Transfer of Shares, on December 30th 2020, between the Republic of Serbia and NLB d.d. Ljubljana, the process of selling Komercijalna banka a.d. Beograd was completed. The subject-matter of the contract was 83.23% of ordinary shares of Komercijalna Banka whereby NLB d.d. Ljubljana became the owner of shares that were owned by the Republic of Serbia and the largest single owner of the Bank with the management right.

On March 11th 2021 NLB d.d. Ljubljana released an offer for acquisition of the remaining ordinary shares and the total issue of priority shares of Komercijalna banka a.d. Beograd. With the additional purchase of ordinary shares by December 31st 2021, it increased its share in the governance shares of Komercijalna banka a.d. Beograd to 88.28%.

At the General Meeting of the Banks' Shareholders, held on December 23rd 2021, a decision on accepting the merger of NLB banka a.d. Beograd to Komercijalna banka a.d. Beograd was adopted. With the decision of the Business Registers Agency No. BD 37318/2022, of April 29th 2022, the status change of the merger of NLB banka a.d. Beograd, as the transferring company which was deleted from the register of business entities, due to the status change, and Komercijalna banka a.d. Beograd, as the acquiring company was registered. At the same General Meeting of Shareholders the decision on changing the Banks' business name was also adopted. The new business name of Komercijalna banka a.d. Beograd is NLB Komercijalna banka AD Beograd. This decision applies as of the date of registration of the status change at the Register of Business Entities at the Business Registers Agency.

Komercijalna banka a.d. Beograd, as the acquiring company, issued 1,658,430 ordinary shares, with the nominal value of 1,000.00 for the purpose of replacing the ordinary shares of NLB banka a.d. Beograd, as the transferring company, that were assigned to the shareholder NLB d.d. Ljubljana, as the only shareholder of the transferring bank which ceases to exist as the result of the merger. By doing so, NLB d.d. Ljubljana increased its share in the governance shares of NLB Komercijalna banka a.d. Beograd to 89.33%.

In the process of sale of 487,054 ordinary shares that the Bank acquired from dissenting shareholders when adopting the decision of the General Meeting of Shareholders on the status change, in accordance with the Company Law, in May 2022 NLB d.d. Ljubljana exercised its right of purchase of these shares proportionately to its own ownership share and bought additional 442,799 shares of the Bank and, in that manner, increased its share in the governance shares of NLB Komercijalna banka a.d. Beograd to 91.73%.

The Bank has one dependent legal entity with participation in the ownership of:

- 100% - UCITS Fund Management Company KomBank INVEST ad, Belgrade, Serbia

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

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

As of June 30th, 2022 the Bank consists of the headquarters in Belgrade in the street St. Sava no. 14, 4 regions, 1 branch and 186 branches.

As of June 30th, 2022 the Bank had 2,713 employees, and on December 31, 2021 had 2,372 employees. The Bank's tax identification number is 100001931.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Declaration of Conformity

The Bank keeps business books and prepares financial statements in accordance with the current Law on Accounting of the Republic of Serbia („ Official Gazette of RS ", No. 62/2013, 30/2018 and 73/2019), the Law on Banks, "Official Gazette of RS", No. 107/2005, 91/2010 and 14/2015) and other relevant bylaws of the National Bank of Serbia, as well as other applicable legislation in the Republic of Serbia.

In accordance with the Law on Accounting, legal entities and entrepreneurs in the Republic of Serbia compile and present financial statements in accordance with legal, professional and internal regulations, where professional regulations include the applicable Framework for the preparation and presentation of financial statements ("Framework"), International accounting standards ("IAS"), International Financial Reporting Standards ("IFRS") and interpretations that are an integral part of the standard, i.e. the text of IAS and IFRS, which is applied, does not include the basis for conclusions, illustrative examples, guidelines, comments, contrary opinions, elaborated examples and other additional material.

In late 2021 the Bank amended the accounting policies for subsequent valuation of investment property by defining in the new accounting policy the fair value method for valuation after the initial recognition instead of the previously used purchasing value method. The new policy applies to the Bank's all investment property.

The Bank's management conducted a voluntary change of the above-mentioned accounting policy with the aim of bringing it into compliance with the accounting policies of NLB Group, as well as with the aim of preparing financial reports that will have, as the result, provision of more reliable and relevant information about the effects of transactions on the Bank's financial position and performance.

The Bank prepares and presents regular financial statements for the current business year ending on December 31 of the current year as well as reports in a shorter period of time for its own needs, at the request of the competent authority of the Bank or competent government agencies.

The attached financial statements are prepared in the format prescribed by the Rulebook on the content, form and manner of publishing annual, semi-annual and quarterly reports of public companies ("Official Gazette of RS", No. 14/2012, 5/2015 , 14/2015, 24/2017 and 14/2020), based on which public companies and individual companies related to it submit information to the Securities Commission according to the Law on Capital Market ("Official Gazette of RS", No. 31/2011, 112/2015 , 108/2016, 9/2020 and 153/2020). The prescribed set of quarterly financial statements consists of: Balance Sheet, Income Statement, Statement of Other Results, Statement of Cash Flows, Statement of Changes in Equity and Notes to quarterly financial statements.

2.2. Rules for valuing financial instruments

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

IFRS 16 regulates that on the commencement date of a lease, the lessee recognizes a lease payment obligation (i.e. a lease obligation) and an asset that represents the right to use the asset in question for the duration of the lease (i.e. the right to use the asset). The lessee is required to recognize separately the cost of interest on the lease obligation and the cost of depreciation based on the right to use the asset.

Subsequent valuation of lease asset and liability:

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

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

Subsequently, recognized purchase value is reduced by:

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

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

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

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

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

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

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

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

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

2.2.1. Financial assets

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

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

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

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

Financial assets may be classified into the following categories:

a) Financial assets calculated at amortized costs (AC)
b) Financial assets valued at fair value through profit and loss (FVTPL)
c) Financial assets valued at fair value through other comprehensive income, with recognition through the P&L – "recycling"(FVOCI)
d) Financial assets valued at fair value through other comprehensive income, without recognition through the P&L (FVOCI)

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

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

2.2.2. Financial liabilities

Financial liability is any contracted liability of the Bank:

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

2.3. Functional and Reporting Currency

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

3 . STRUCTURE OF BALANCE SHEET AND P&L, OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ASSESSMENTS AND ASSUMPTIONS

BALANCE SHEET

The structure of the Bank's balance-sheet, as of June 30th 2022, compared to the data for 2021 (prior to the status change), prepared in the format prescribed by the Decision on the forms and the content of the items in the forms of financial statements for banks (RS Official Gazette No. 101/2017, 38/2018 and 103/2018), and is presented in more detail in the following overview:

In thousands of RSD

	30.06.2022		31.12.2021	
ASSETS	Amount	%	Amount	%
Cash and funds at central bank	87,685,914	16.13	82,055,481	16.77
Receivables from derivatives	12,908	-	-	
Securities	121,819,448	22.41	149,588,755	30.56
Loans and receivables from banks and other financial organizations	15,332,383	2.82	29,114,381	5.95
Loans and receivables from customers	297,521,736	54.73	209,044,942	42.71
Investments in associates and joint ventures	1,488,063	0.27	1,488,063	0.31
Investments in subsidiaries	140,000	0.03	140,000	0.03
Intangible assets	603,817	0.11	582,101	0.12
Property, plant and equipment	9,609,009	1.77	8,755,659	1.79
Investment real estate	2,695,112	0.50	2,610,531	0.53
Current tax assets	-	-	18,911	-
Deferred tax assets	1,287,585	0.24	509,242	0.10
Fixed assets intended for sale and assets of business that are suspended	342,063	0.06	101,614	0.02
Other funds	5,058,490	0.93	5,430,725	1.11
TOTAL ASSETS	**543,596,528**	**100.00**	**489,440,405**	**100.00**

LIABILITIES	Amount	%	Amount	%
Receivables from derivatives	3,358	-	-	-
Deposits and other fin. liabilities to banks, other financial organizations and the central bank	9,641,559	1.77	2,134,969	0.44
Deposits and other fin. liabilities to other clients	437,461,325	80.48	403,286,418	82.40
Subordinated debt	1,766,439	0.33	-	-
Provisions	5,103,627	0.94	4,233,853	0.86
Current tax liabilities	185,737	0.03	-	-
Other obligations	5,700,863	1.05	4,142,443	0.85
Total liabilities	**459,862,908**	**84.60**	**413,797,683**	**84.55**
Capital				
Share capital	45,859,620	8.44	40,034,550	8.18
Own shares	(31,994)	(0.01)	-	-
Profit	16,237,069	2.99	9,573,620	1.95
Reserves	21,668,925	3.98	26,034,552	5.32
Total capital	**83,733,620**	**15.40**	**75,642,722**	**15.45**
TOTAL LIABILITIES	**543,596,528**	**100.00**	**489,440,405**	**100.00**

INCOME STATEMENT

Structure of revenues and expenditures for 2022 is as set forth below:

In thousands of RSD

	30.06.2022. Total	30.06.2021. Total
Interest income	7,240,228	6,493,862
Interest expenses	(384,674)	(515,470)
Net interest income	**6,855,554**	**5,978,392**
Fee and commission income	4,767,020	3,446,860
Fee and commission expenses	(1,077,524)	(856,791)
Net income according to fee and commission	**3,689,496**	**2,590,069**
Net profit from change in fair value of financial instruments	11,734	1,364
Net gain on derecognition of financial instruments measured at fair value	-	129,754
Net loss on derecognition of financial instruments measured at fair value	(63,034)	-
Net income from exchange rate differences and the effects of the contracted currency clause	-	31,237
Net expense from exchange rate differences and the effects of the agreed currency clause	(137,896)	-
Net income from impairment of financial assets not measured at fair value through profit or loss	279,200	-
Net expense on impairment of financial assets not measured at fair value through profit or loss	-	(853,523)
Net gain on derecognition of financial instruments measured at amortized cost	86,194	-
Other operating income	177,304	114,995
Total net operating income	**10,898,552**	**7,992,288**
Wage costs, wage compensation and other personal expenses	(2,727,824)	(2,372,498)
Depreciation costs	(540,568)	(447,903)
Other income	352,191	107,774
Other expenses	(4,321,831)	(4,472,087)
Profit / loss before taxes	**3,660,520**	**807,574**
Income tax	**(204,648)**	**-**
Profit from deferred taxes	**115,740**	**182,952**
Deferred tax loss	**(173,148)**	**(46,177)**
Period result (gain / loss)	**3,398,464**	**944,349**

CASH FLOW STATEMENT

Cash flows realized in 2022 are shown in the following table:

In thousands of RSD

Position	30.06.2022 Total	30.06.2022 Total
Cash inflows from operating activities Interest inflows	**15,304,914**	**14,047,724**
Interest inflows	9,524,018	8,890,867
Fee inflows	4,875,335	3,476,042
Inflows from other business activities	900,424	1,678,453
Dividend inflows and profit sharing	5,137	2,362
Cash outflows from operating activities	**(7,708,267)**	**(6,836,538)**
Interest outflows	(361,947)	(432,293)
Fee outflows	(1,077,588)	(856,854)
Outflows based on gross earnings, salary compensation and other personal expenses	(2,094,474)	(1,990,526)
Outflows from taxes, contributions and others duty on expenses	(497,169)	(406,662)
Outflows from other operating expenses	(3,677,089)	(3,150,203)
Net cash inflow from operating activities before increasing or decreasing financial assets and financial liabilities	**7,596,647**	**7,211,186**
Decrease in financial resources and increase in financial liabilities	**49,595**	**24,805,978**
Reduction of receivables from securities and other financial assets not intended for investment	49,595	7,861,976
Increase in deposits and other financial liabilities to banks and other fin. organizations, the central bank and clients	-	16,944,002
Increasing financial resources and reducing financial liabilities	**(48,137,945)**	**(13,680,696)**
Increase in loans and receivables from banks, other financial organizations, central banks and customers	(26,407,509)	(13,680,696)
Reduction of deposits and other financial liabilities to banks and other financial organizations, central banks and customers	(21,730,436)	-

In thousands of RSD

Position	30.06.2022 In total	30.06.2021 In total
Net cash inflow from operating activities before income tax	**-**	**18,336,468**
Net cash outflow from operating activities before income tax	**(40,491,703)**	**-**
Paid income taxes	(11,914)	(6,674)
Dividends paid	(1,971)	(9,797)
Net cash inflow from operating activities	**-**	**18,319,997**
Net cash outflow from operating activities	**(40,505,588)**	**-**
Cash inflows from investing activities	**54,410,093**	**11,705,073**
Inflows from investments in investment securities	43,648,070	11,705,073
Receipts from investment property	59,920	-
Other receipts from investment activities	10,702,103	-
Cash outflows from investing activities	**(18,254,797)**	**(12,902,392)**
Outflows from investments in investment securities	(17,427,702)	(12,851,318)
Outflows for the purchase of intangible assets, real estate, plant and equipment	(827,095)	(51,074)
Net cash inflow from investing activities	**36,155,296**	**-**
Net cash outflows from investing activities	**-**	**(1,197,319)**
Cash inflows from financing activities	**194,216,829**	**203,678,847**
Inflows based on loans taken	192,316,257	203,678,847
Receipts from the sale of treasury shares	1,900,572	-
Cash outflows from financing activities	**(195,207,392)**	**(204,004,090)**
Cash outflows based on repurchase of own shares	(2,235,096)	-
Cash outflows based on Borrowings	(192,791,758)	(203,785,707)
Other outflows from financing activities	(180,538)	(218,383)
Net cash inflow from financing activities	**-**	**-**
Net cash outflow from financing activities	**(990,563)**	**(325,243)**
All cash inflows	**263,981,431**	**254,237,622**
Just cash outflows	**(269,322,286)**	**(237,440,187)**
Net increase in cash	**-**	**16,797,435**
Net reduction in cash	**(5,340,855)**	**-**
Cash and cash equivalents at the beginning of the year	**60,638,037**	**51,637,298**
Positive exchange rate differences Negative exchange	1,171,024	452,159
rate differences	(751,190)	(417,545)
Cash and cash equivalents at the end of the period	**55,717,016**	**68,469,347**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

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

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

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

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

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

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

Net interest income in the period January - June 2022 amount to 6,855,554 thousand dinars and are higher by 877,162 thousand dinars or 14.67 % compared to the same period last year.

3.2. Fee and commission income and expenses

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

Income from fees for banking services and expenses based on fees and commissions are established at the time when they are due for collection or when realized. They are recognized in the P&L at the time when they incur and/or when due for collection.

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

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

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

Net income from fees and commissions in the period January - June 2022 amount to 3,689,496 thousand dinars and are higher compared to the same period in 2021 by 42.45 % or 1,099,427 thousand dinars.

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

Realized or unrealized gains and losses based on the change in the market value of trading securities and which are measured at fair value through the P&L are recognized within this item, while unrealized profit and loss from the change in the value of debentures and proprietary securities measured at fair value through other comprehensive income are recognized within revaluation reserves included in the Bank's capital.

In the observed period 2022 the Bank reported a net profit from the change in the fair value of financial instruments held for trading in the amount of 11,734 thousand dinars (investment units of Kombank money fund and the income from the change in the fair value of derivatives - SWAP).

Upon derecognition of securities at fair value through profit or loss, the corresponding amounts of previously formed revaluation reserves are recognized in the income statement as gains or losses on derecognition, while on derecognition of securities at fair value through profit or loss previously formed amounts related to changes in value are also recognized in the income statement as gains or losses on derecognition.

Based on the derecognition of financial instruments measured at fair value through profit or loss and through other results, a net loss of 63,034 thousand dinars was recorded (bonds of the Republic of Serbia , foreign countries' T-bills, SWAP, bonds of foreign banks and investment units of the Kombank Monetary Fund). In the same period 2021 the net profit on these grounds was 129,754 thousand dinars.

Gains / losses on the contractual 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 or loss are recognized in the income statement.

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

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

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

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

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

Net expenses according to exchange rate differences in the reporting period January - June 2022 amount to 137,896 thousand dinars. The reported net income is mostly under the direct influence of the dinar exchange rate against the basket of currencies (EUR, USD and CHF) between the two observed reporting periods as a form of risk protection and management of the Bank's foreign exchange position - balanced foreign exchange position. In the same period 2021 the net income from this amounted to 31,237 thousand dinars.

Commitments and contingent liabilities denominated in foreign currencies are translated into dinars at the middle exchange rate determined on the interbank foreign exchange market valid on the balance sheet date.

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

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

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

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

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

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

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

In the period January - June 2022 the Bank reported net income based on impairment of financial assets and credit risk off-balance sheet items that are not measured at fair value through profit or loss in the amount of 279,200 thousand dinars, while in the same period of 2021, net expenses on this basis amounted to 853,523 thousand dinars.

In the current reporting period 2022, the most significant effects are given below.

Net negative effect of group and individual calculation of impairment for loans, other receivables and off - balance sheet items in the period January - June 2022 is 449,698 thousand dinars.

Net income from impairment of debt securities at fair value through profit or loss in the period January - June 2022 is 103,483 thousand dinars.

The positive effect refers to the collection of written-off receivables in the amount of RSD 625,415 thousand. Of the total amount of collected written-off receivables, the most significant part refers to the collection of loans to legal entities in the amount of 484,943 thousand dinars.

3.6. Net gain on derecognition of financial instruments measured at amortized cost

In the period January - June 2022, net profits were recorded on the basis derecognition of financial instruments measured at amortized cost in the amount of 86,194 thousand dinars. The amount relates entirely to the effects of the sale of receivables from the client.

3.7. Other operating income

In the total other operating income in the amount of 177,304 thousand dinars, the most significant share of 95.86 % have operating income (the same period in the previous year 97.07 %), which mostly relate to income generated by leasing real estate in the amount of 101,656 thousand dinars . Other operating income was generated according to reimbursement of expenses according to: utility and court costs, income from collected expenses for company mobile phones in accordance with the employees' authorization, income from long-term insurance, as well as income from the use of company cars for private purposes.

Dividend income is part of the position of other operating income. Dividends received according to investments in shares of other legal entities in the amount of 7,339 thousand and dinars are presented as dividend income at the time of their collection. The total amount of collected dividends of 7,339 thousand dinars refers to dividends received from VISA Inc USA in the amount of 6,074 thousand dinars and MasterCard USA in the amount of 1,265 thousand dinars.

3.8. Costs of Salaries, Allowances and other Personnel Expenses

Costs of salaries, allowances and other personnel expenses in amount of 2,727,824 thousand dinars are higher by 355,326 thousand dinars or 14.98% compared to the same period last year.

3.9. Depreciation costs

Depreciation costs amounting to RSD 540,568 thousand are higher than in January - June 2021 by 92,665 thousand dinars or 20.69 %.

3.10. Other income

In the total other income in the amount of 352,191 thousand dinars, the most significant share of 58.58 % has the income from the abolition of unused provisions for litigation in the amount of 206,309 thousand dinars (reference note 3.23). Other revenues have a share of 41.42 % or 145,882 thousand dinars, of which amount the most important item relates to other income from the sale of funds acquired through the collection of receivables in the amount of 45,309 thousand dinars.

3.11. Other expenses

Other expenses are stated in the amount of 4,321,831 thousand dinars and are lower compared to the same period last year by 150,256 thousand dinars or 3.36 %. Other expenses comprise:

a) operating expenses in the amount from 3,207,556 thousand dinars ,
b) expenses on provisions for court obligations in the amount of 320,970 thousands of dinars,
c) cost of provisioning for restructuring according to the Program, in the amount of 541,324 thousand dinars,
d) loss from the sale of fixed assets and intangible assets in the amount of 140 thousand dinars,
e) losses from disposal and write-off of fixed assets and intangible assets in amount of 16,032 thousand dinars
f) other expenses in the amount of 235,809 thousand dinars

The following items account for the largest share of other expenses

a) Operating expenses in the total amount of RSD 3,207,556 thousand, as follows:

Intangible costs in the amount of RSD 1,627,982 thousand with the largest individual item of deposit insurance costs in the amount of RSD 869,899 thousand. The structure of other costs in the position of operating expenses includes: costs of materials in the amount of 189,457 thousand dinars, costs of advertising and propaganda in the country in the amount of 146,019 thousand dinars, costs of maintenance of IT equipment and software in the amount of 139,103 thousand dinars, cost of current maintenance of office space and other equipment in the amount of 110,938 thousand, costs of SMS services in the amount of 92,247 thousand dinars , costs of management and maintenance of ATM for payment cards in the amount of 87,526 thousand dinars, costs of management and maintenance of POS network and other equipment for payment cards in the amount of 80,383 thousand dinars, costs of current maintenance of business premises and other equipment in the amount of 37,862 thousand dinars, heating costs in the amount of 42,535 thousand dinars, costs of maintenance of electronic banking equipment in the amount of RSD 42,076 thousand , tax expenses in the amount of RSD 79,977 thousand, contribution costs in the amount of RSD 367,673 thousand and other expenses in the amount of RSD 10,533 thousand.

Operating expenses of the current period are higher compared to the same period last year by 530,547 thousand dinars (mostly due to higher costs of deposit insurance premium, cost of current maintenance of office space and other equipment and the cost of intellectual services).

b) Expenses on provisions for court liabilities in the amount of 320,970 thousands of dinars related to the increase in provisions for the Bank 's legal obligations in 2022 (reference note 3.23), *c) Cost of provisioning for restructuring in accordance with the voluntary redundancy compensation program for the employees in the amount of 541,324 thousand dinars (voluntary redundancies),*

d) Loss from the sale of fixed assets and intangible assets in the amount of RSD 140 thousand,

e) Losses on disposal and write-off of fixed assets and intangible assets in the amount of 16,032 thousand dinars in accordance with the report of the competent commission and the decision of the Bank's bodies.

f) Other expenses in the amount of 235,809 thousand dinars

From the total amount of other expenditures for the period January - June 2022 in the amount *of RSD 235,809* thousand, the largest part relates to the costs of the loan beneficiary's insurance policy in the amount of RSD 146,548 thousand. Other expenses on this basis in the same period 2021 amounted to 118,907 thousand dinars.

In relation to the same period 2021, other expenses are higher by 14,266 thousand dinars primarily as a result of one increase costs under the insurance policy of receivables from loan beneficiaries (increase by RSD 27,640 thousand), cost of the insurance policy for the users of the account sets (increase of 2,421 thousand dinars) and the increase of expenses for the sale of assets acquired through collection of receivables (increase by RSD 2,354 thousand) and on the other hand reduction of expenses related to lost court cases regarding the principal and litigation expenses (decrease by 11,891 thousand dinars), the decrease in other expenses according to interest on court disputes (reduction by 6,051 thousand dinars) and the decrease in other expenses from refund of a portion of commission for insurance agency (decrease of RSD 546 thousand).

3.12. Profit/loss from deferred tax

In the income statement as of 30.06.2022 the Bank posted a profit tax of 204,648 thousand dinars and a net loss based on the effects of deferred taxes in the amount of RSD 57,408 thousand.

BALANCE SHEET

Overall balance sheet total as of 30.06.2022 amounts to 543,596,528 thousand dinars, which in relation to 31.12.2021 represents an increase of 54,156,123 thousand dinars or 11.6%. This increase was partially caused by merging NLB banka a.d. Beograd with Komercijalna banka a.d. Beograd (data for 31.12.2021 relate to the data for Komercijalna banka a.d. Beograd).

ASSETS

The dominant share in the total assets of the Bank is that of the loans and deposits to customers and banks of 57.55 % (2021: 48.66 %), securities with a share of 22.41 % (2021: 30.56 %), cash and funds with the central bank with a share of 16.13 % (2021:16.77 %), property, plant and equipment with a share of 1.77% (2021: 1.79 %) , other assets with a share of 0.93% (2021:: 1.11 %) and investment property 0.50 % (2021: 0.53 %).

3.13. Cash and Balances with the Central Bank

Cash and balances with the central bank on 30.06.2022 amount to RSD 87,685,914 thousand and represent 16.13% of the Bank's total assets (16.77 % as at 31 December 2021). In relation to 31.12. 2021, the position is higher by 5,630,433 thousand dinars.

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

3.14. Derivative receivables

Derivative receivables, in the amount of 12,908 thousand dinars relate to the receivables from the change in the fair value of derivatives intended for trade – SWAP.

3.15. Securities

Investments in securities in the amount of 121,819,448 thousand dinars make up the percentage of participation of 22.41 % in relation to total assets (20 21: 30.56 %) and consist of securities valued at fair value through profit or loss in the amount of 465,184 thousand dinars, securities valued at fair value through other results in the amount of 118,313,730 thousand dinars and securities valued at amortized cost in the amount of 3,040,534 thousand dinars.

There was a decrease in the placement of securities in relation to 2021 by 27,769,307 thousand dinars or 18.56 %. The decrease is the result on the one hand of a decrease in securities measured at fair value through other comprehensive income by RSD 29,827,718 thousand, and on the other hand a decrease in securities measured at fair value through P&L by RSD 47,639 thousand, as well as increases in securities measured at amortized value in the amount of RSD 2,106,050 thousand.

The largest share in the securities structure in RSD is that of the Republic of Serbia bonds (98.19%), corporate bonds of public enterprises (1.10%), investment units of KomBank Money Fund, Beograd (0.62 %) and discounted corporate bills (0.09 %). When it comes to securities in foreign currency, they consist of bonds of the Republic of Serbia (72.74 %), bonds of foreign bank and investment bonds (79.39%), T-bills of foreign countries (20.18%), and bonds based on earlier FX savings (0.43 %).

3.16. Loans and Receivables from Banks and Other Financial Organizations and Loans and Receivables from customers

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

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

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

As at 30.06.2022, loans and receivables from banks and other financial organizations amount to RSD 15,332,383 thousand and a share of 2.82 % of total assets (2021: 29,114,381 thousand dinars) and are lower for 13,781,998 thousand dinars. Decrease compared to 31.12.2021 is mostly the result on the one hand reduction of funds in regular foreign currency current accounts abroad by 10,874,964 thousand dinars, non-purpose time deposits with banks in dinars by RSD 6,450,000 thousand, and on the other hand the increase in investment in repo transactions with the NBS in dinars – repurchasing value of 2,968,750 thousand dinars, short-term fixed funds with foreign banks in foreign currency by RSD 1,041,369 thousand, loans to other financial organizations for working capital and liquyidity-vk by 206,179 thousand dinars, regular FX accounts with related banks abroad by 32,294 thousand dinars and long-term investment loans for permanent working capital to other financial organizations in RSD with VK by 46,149 thousand dinars.

Loans and receivables from customers on 30.06.2022 amount to 297,521,736 thousand dinars and with a percentage of 54.73% of total assets (20 21: 209,044,942 thousand dinars) have a dominant share in the structure of assets. Total placements to customers are higher by 42.32. % in relation to 2021, i.e. by 88,476,794thousand dinars, as a result of the net increase in newly approved loans on the one hand, and the merging of the loan portfolio of NLB banka a.d. Beograd to Komercijalna banka ad Beograd, due to the status change, on the one hand, and the decrease in lending due to early and regular repayments on the other, as well as the impact of the net effects of the calculation of these and recognized impairment provisions. The stated net increase in newly approved loans mostly refers to seven new placements to legal entities in the amount of RSD 19,533,849 thousand.

In the period January - June 2022 in accordance with the NBS Decision on accounting write-off of balance-sheet assets of banks, the Bank did a permanent write-off by transferring the balance-sheet assets to off-balance-sheet records in the amount of 225,611 thousand dinars. The permanent write-off did not result in a decrease in balance-sheet assets, given that the write-off was done for the receivables that had been 100% impaired i.e. in full gross amount of carrying value. According to the NBS decision, balance-sheet assets include NPLs that fit the description in the Decision on the classification of balance-sheet assets and off-balance-sheet items.

3.17. Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures amount to 1,488,063 thousand dinars and account for 0.27 % of total assets.
Investments in subsidiaries as of 30.06.2022 amount to 2,366,273 thousand dinars (gross amount without valuation impairment):

	In thousands of dinars
NLB Banka ad, Podgorica	2,366,273
Value adjustment	(878,210)
Total	**1,488,063**

In November 2021, in a business combination within the NLB Group, the Bank acquired a 23.97% stake in the capital of NLB Banka ad Podgorica on behalf of its participation in Komercijalna Banka Podgorica.
The Bank hired an independent appraiser to assess the share after the status change of the merger with the merger of Komercijalna Banka ad Podgorica to NLB Banka ad Podgorica on 30.11.2021.

3.18. Investments in subsidiaries

Investments in subsidiaries amount to RSD 140,000 thousand or 0.03% of total assets and are entirely related to UCITS Fund Management Company KomBank INVEST ad, Beograd.

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

All of the above items account for 3.61 % of total assets, of which the largest percentage relates to real estate plant and equipment in the amount of 1.77 %, other assets in the amount of 0.93 % and investment property in the amount of 0.50 %.

Investments in equity of banks, foreign and local legal entities as of 30.06.2022 amount to 2,138,907 thousand dinars at fair value through other results. The largest amount relates to participation in the capital of foreign persons in the amount of 2,081,187 thousand dinars and represents participations in the companies MASTER Card International and VISA INC.

As at 30.06.2022 the netting of deferred tax assets and deferred tax liabilities was carried out on 30.06.2022. Deferred tax assets amount to 1.287,585 thousand dinars. Observed on a gross basis (before netting), deferred tax assets amount to 1.777,817 thousand dinars, and are mostly deferred tax assets based on temporarily unrecognized expenses based on impairment of assets in the amount of 290,973 thousand dinars according to provisions for litigation in the amount of 387,877 thousand dinars and on the basis of revaluation of securities in the amount of 757,083 thousand dinars.

As of 31.12.2021, a tax loss in the amount of 198,215 thousand dinars was realized, so the previously transferred tax losses remained unused. With this date, a new tax asset in the amount of 29,732 thousand dinars was registered, which was cancelled under 30.06.2022.

Deferred tax assets according to transferred tax losses

In thousands of dinars

Year	Increase (forming)	Reduction (use)	Condition
2017	1,235,813	(368,667)	867,146
2018	641,193	(630,339)	878,000
2019.	1,107,438	(726,088)	1,259,350
2020.	1,654	(1,261,004)	-
2021.	29,732	-	29,732
30.06.2022.		(29,732)	-

Based on the submitted tax return and tax balance for 2019, the Bank pays in advance the income tax for 2020, until the submission of the tax balance for 2020, i.e.to 06/18/2021 Bank for 2020 and 2021 has no obligation to pay income tax for the year, so it will use the stated overpayment for income tax in the amount of 18,911 thousand dinars for the following periods. Bearing in mind that the Bank stated the liability according to current income tax as of 30.06.2022, and that it is partially covered by the claim for overpaid income tax, on the account of the claim for overpaid income tax, zero was declared as of 30.06.2022.

LIABILITIES

In the period January - June 2022 in the structure of liabilities, deposits and other financial liabilities to banks and customers still have a dominant share with a total percentage of 82.25 % (2021: 82.84 %) of total liabilities. The share of capital in total liabilities is 15.40 % (2021:15.45 %).

Other positions account for 2.35 % of total liabilities, with the largest share related to other liabilities with a percentage of 1.05 %.

3.20. Derivative liabilities

As of 30.06.2022, derivative liabilities amount to 3,358 thousand dinars and relate fully to the liabilities from the change in the fair value of forwards and foreign currency – SWAP.

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

Deposits are shown at the level of deposited amounts, which can be increased by calculated interest, which depends on the contractual relationship between the depositor and the Bank. The Bank agreed the interest rates on deposits depending on the currency, maturity and type of deposits.

FX deposits are shown in Dinars at middle exchange rate of currencies applicable as at the balance sheet date.
In the balance sheet, deposits are shown as transaction and other deposits of the financial sector and deposits from other customers.

The most significant share in the structure of liabilities have deposits and other financial liabilities to customers in the amount of 437,461,325 thousand dinars representing 80.48 % of total liabilities (2021: 82.40 %) and deposits and other financial liabilities to banks, other financial organizations and the central bank in the amount of 9,641,559 thousands of dinars with a share of 1.77 % (2021: 0.44 %).

Total deposits with customers, banks, other financial organizations and the central bank amount to 447,102,884 thousand dinars and in relation to 2021 are higher by 41,681,497 thousand dinars: transaction deposits are higher by 15,025,784 thousand dinars, while other deposits are higher by 26,655,713 thousand.

Increase in transaction deposits is primarily the result of an increase in FX deposits of 10,632,438 thousand dinars, while dinar transaction deposits increased by 4,393,346 thousand dinars, compared to 31.12.2021. The structure of transaction deposits is still dominated by deposits in domestic currency with a share of 67.34 %, while the remaining 32.66 % refers to deposits in foreign currency.

The single most significant increase in the item Other Deposits is the increase in FX current accounts of private individuals related to FX savings accounts of 15,985,196 thousand dinars and an increase in fixed-term deposits of other companies in foreign currency by 3,874,417 thousand dinars.

In other deposits, foreign currency deposits have a dominant share with a share of 90.48 %, while dinar deposits have a share of 9.52 %. Foreign currency savings are higher by cc and 129,5 million euros.

Borrowings

Borrowings, as part of the item Deposits and Other Liabilities to banks and other customers amount to 1,703,438 thousand dinars, with a percentage of share in total liabilities of 0.31% and relate to borrowings in foreign currency.

Compared to 2021, the total item is higher by 1,087,485 thousand dinars, primarily as the result, on the one hand, the merger of NLB banka a.d. Beograd to Komercijalna banka a.d. Beograd, due to which there was a creation of the item Long-term financial loans from related foreign banks with the a tenure of over 2 years, in the amount of 1,252,325 thousand dinars, while on the other hand, the decrease is the result of regular repayments of foreign credit lines in foreign currency, in the total amount of 164,840 thousand dinars, namely:

- EIB in the amount of EUR 1,384 thousand and
- The Government of the Italian Republic in the amount of 12 thousand EUR.

As of 30.06.2022, the most significant share in the structure of received loans refers to the obligation to:

- NLB d.d. Ljubljana 73.52%
- European Investment Bank (EIB) with a percentage of 26.40%

Other credit lines have a share of 0.08 % and are entirely related to the credit line of the Government of the Republic of Italy.

3.22. Subordinated liabilities

As of 30.06.2022, subordinated liabilities, in the amount of 1,766,439 thousand dinars are the result of merging NLB banka a.d. Beograd to Komercijalna banka a.d. Beograd. They consist of: received subordinated long-term loan to foreign related entities in dinar equivalent of EUR 15,000 thousand or 1,761,082 thousand dinars, reduced for the amount of accrued i.e. costs that are paid in advance that relate to servicing the subordinated liability in a foreign currency from related entities, in the amount of 3,869 thousand dinars and increased by the liabilities for interest, in the amount of 9,226 thousand dinars.

3.23. Provisions

Provisions in the amount of 5,103,627 thousand dinars consist of provisions for:

- litigation in the amount of 2,585,847 thousand dinars,
- long-term employee benefits in the amount of 466,287 thousand dinars ,
- provisions for losses on off-balance sheet assets in the amount of 302,149 thousand dinars and
- other provisions in the amount of RSD 1,749,344 thousand,

In the observed period in relation to 2021 there was a net increase in provisions in the amount of 869,774 thousand dinars, as a result of a net decrease in provisions based on litigation by 17,936 thousand dinars, net increase in other provisions in the amount of 737,570 thousand dinars, on the one hand, as well as an increase in provisions for losses on off-balance sheet assets in the amount of RSD 93,330 thousand and increase in provisions for long-term employee benefits in the amount of RSD 56,810 thousand on the other hand.

Provisions for litigation

Provisions were recognized based on an estimate of future outflows in the amount of the claims, including interest and costs.

For twenty-five thousand four hundred ninety-seven court disputes as of 30.06.2022 the total provision amounts to 2,585,847 thousand dinars.

In relation to 31.12.2021 there was a change in the total level of provisions in the net amount of 17,936 thousand dinars. Of that, the change related to the net cost of provisions for court liabilities amounts to 320,970 thousand dinars recognized within the income statement items (reference notes 3.10 and 3.11) while the reduction of provisions in the amount of 338,906 thousand dinars refers to the use of provisions for payments and the abolition of provisions for judgments. The decrease in provisions for court hearings is largely the result of fewer lawsuits received compared to 2021, withdrawals and waivers of client lawsuits for cases related to loan processing and NMIC, as well as the use of previously established provisions.

In connection with the court disputes/litigation initiated on the ground of fees the Bank has charged when approving the loan, in the meantime, at the session of the Civil Department of the Supreme Court of Cassation held on September 16, 2021, the Legal Position on the Admissibility of Contracting Loan Costs (adopted on May 22, 2018) was amended by the provision that the bank is not obliged to prove the structure and amount of costs that are included in the total amount of loan costs, specified in the offer accepted by the borrower upon concluding the loan agreement.

At the same session on September 16, 2021, the position on the admissibility of contracting insurance premiums, as an obligation of the borrower to NMIC, was taken, so that it was said that the legally valid provision of the loan agreement obliges the borrower to pay the bank the insurance premium to NMIC, provided that this obligation has been clearly presented to the borrower in the pre-contractual phase by stating this type of loan cost and its percentage and nominal amount in the offer. The bank is not obliged to acquaint the borrower with the structure and method of calculating the loan insurance premium.

In the presented financial statements, the estimate of provisions for litigation according to lawsuits filed against the Bank until 20.09.2021 relating to fees charged by the Bank to borrowers was made without taking into account the position of the Supreme Court of Cassation of 16 September 2021 due to the Bank's determination to wait for the unification of case law based on the position of the Supreme Court of Cassation.

Other provisions

As of 30.06.2022 the accumulated provisions amount to 1,749,344 thousand dinars.

Recognition of provisions for costs of restructuring was made based on adopted Program of voluntary redundancy of Bank’s employees, estimated expected number of employees who would be interested in voluntary leaving the Bank, as well as estimated approximate cost, in order to reduce the number of full time employees and to optimize the Bank’s operations. As of 30.06.2022, provisions for restructuring amount to 1,289,959 thousand dinars.

Provisions for other long-term employee remuneration for bonus in dinars amount to 215,000 thousand dinars, while provisions for other short-term employee remuneration (compensation for unused holiday allowance) amount to 244,385 thousand dinars.

What affected the total amount for the item Provisions was also the merger of NLB banka a.d. Beograd with Komercijalna banka a.d. Beograd due to which there was an additional increase in provisioning.

3.24. Current and deferred tax liabilities

As of 30.06.2022 the Bank has a current tax liability in the amount of RSD 185,737 thousand, calculated according to data for the first half of the current year.

The netting of deferred tax assets and deferred tax liabilities was performed on 30.06.2022 and after the netting in the liabilities of the balance sheet, the deferred tax liabilities are zero dinars. Observed according to the gross principle (before netting), deferred tax liabilities amount to RSD 490,231 thousand, which are mostly deferred tax liabilities based on the revaluation of securities in the amount of RSD 489,338 thousand.

3.25. Other liabilities

Other liabilities amount to RSD 5,700,863 thousand and in relation to 2021 they are higher by 1,558,420 thousand dinars. The percentage share of other liabilities in total liabilities is 1.05 % (2021: 0.85 %). The most significant positions of other liabilities are: liabilities in settlement in dinars in the amount of 1,223,543 thousand dinars, liabilities for leasing in the amount of 931,025 thousand dinars, liabilities for subscriptions on retail loans in RSD in the amount of 533,806 thousand dinars, liabilities in foreign currency settlement in the amount of 415,539 thousand dinars, liabilities for net salaries under expenses in the amount of 325,160 thousand dinars and accrued liabilities on suppliers' invoices in the amount of 296,186 thousand dinars and accrued liabilities for employee remuneration in the amount of 221,890 thousand dinars.

The increase in other liabilities by RSD 1,558,420 thousand mainly relates to the increase in the liabilities in settlement in dinars, in the amount of 784,410 thousand dinars (of which the greatest part relates to the increase in liabilities in the settlement in relation to payment cards by 248,940 thousand dinars), liabilities for net salaries, in the amount of 280,105 thousand dinars and liabilities for subscription related to retail loans in RSD in the amount of 212,923 thousand dinars.

3.26. Capital

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

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

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

As of 30.06.2022, Capital of the Bank consists of:

In thousands of RSD	2022	2021
Share capital	18,849,896	17,191,466
Issue premium	27,009,724	22,843,084
Capital	45,859,620	40,034,550
Profit reserves	22,147,207	22,147,207
Revaluation reserves	2,825,441	2,815,990
Gains / losses on changes in the value of debt and equity instruments	(3,307,424)	1,072,717
Actuarial gains / losses	3,701	(1,362)
Reserves	21,668,925	26,034,552
Treasury shares	(31,994)	-
Accumulated profit	12,838,606	5,927,921
Profit	3,398,463	3,645,699
Balance as at date	**83,733,620**	**75,642,722**

In the process of integration of the Bank with the bank NLB ad Belgrade, based on the request to exercise the right to repurchase shares of 39 dissenting shareholders with the decision of the Bank's Bank's General Meeting of Shareholders on status change, in accordance with Articles 51, 259 and 474 of the Company Law. In the first half of June 2022, it repurchased 487,054 own shares from non-compliant shareholders, at a market value of RSD 4,589.01 per share, in the total amount of RSD 2,235,096 thousand dinars.

In the process of selling treasury shares that the Bank had acquired from dissenting shareholders, in May 2022 NLB d.d. Ljubljana exercised its right to purchase these shares, proportionately to its stake and purchased additional 442,799 shares of the Bank and, in that manner, increased its share in the Bank's governance shares to 91.73% i.e. to 90.22% of total share equity whereby it acquired the right to repurchase the shares, in compulsory repurchase, from the remaining minority shareholders, in accordance with the local regulations.

At the request of the majority shareholder, NLB d.d. Ljubljana, an extraordinary General Meeting of Shareholders was held on 29.06.2022 where the key item of the agenda was the compulsory repurchase of the Banks' shares.

Capital adequacy ratio of the Bank, as of 30.06.2022, calculated according to financial statements by applying the valid decisions of the National Bank of Serbia, is 24.16% .

In addition, the Bank is required to maintain the cash part of the capital at the level of EUR 10,000 thousand. As at 30.06.2022 the monetary part of the capital is above the prescribed level.

Share capital structure - ordinary shares as of 30.06.2022 is as follows:

Name of shareholder	% share
NLB d.d. Ljubljana	91.73
OTP BANKA SRBIJA (custody account)	2.29
Kompanija Dunav osiguranje a.d., Beograd	1.82
Jugobanka a.d., Beograd in bankruptcy	1.74
OTP BANKA SRBIJA (custody account)	0.46
TEZORO BROKER AD	0.33
KRIMINALISTIČKO-POLICIJSKA AKADEMIJA	0.19
NLB KOMERCIJALNA BANKA AD	0.17
DUNAV RE AD	0.10
MERA INVEST DOO BEOGRAD	0.09
TEZORO BROKER AD	0.07
TANDEM FINANCIAL a.d. Novi Sad	0.06
ERSTE BANK CUSTODY	0.06
KRUNA KOMERC DOO	0.05
ELEKTRODISTRIBUCIJA SRBIJE DOO	0.04
PRIVATE INDIVIDUAL	0.03
Other	0.77
	100.00

4. RELATIONS WITH SUBSIDIARIES

RECEIVABLES FROM AND LIABILITIES TO SUBSIDIARIES

Balance as of 30.06. 2022

RECEIVABLES

In thousands of dinars

Subsidiaries	Advances and loans	Interest and fees	Other funds	Impairment provision	Net	Off-balance sheet	Total
1. KomBank INVEST	-	214	-	-	214	-	214
TOTAL:	**-**	**214**	**-**	**-**	**214**	**-**	**214**

LIABILITIES

In thousands of dinars

Subsidiaries	Deposits and loans	Interest and fees	Other obligations	Total
1. KomBank INVEST	221	-	-	221
TOTAL:	**221**	**-**	**-**	**221**

INCOME AND EXPENSES for the period 01.01 - 30.06.2022

In thousands of dinars

Subsidiaries	Interest income	Fee and commission income and other income	Interest expenses	Fee and commission expenses	Net income / expenses
1. KomBank INVEST	-	1,280	-	-	1,280
TOTAL:	**-**	**1,280**	**-**	**-**	**1,280**

Balance as of 31.12.2021

RECEIVABLES

In thousands of dinars

Subsidiaries	Advances and loans	Interest and fees	Other funds	Impairment provision	Net	Off-balance sheet	Total
1. KomBank INVEST	-	311	-	-	311	-	311
TOTAL:	**-**	**311**	**-**	**-**	**311**	**-**	**311**

LIABILITIES

In thousands of dinars

Subsidiaries	Deposits and loans	Interest and fees	Other obligations	Total
1. KomBank INVEST	53	-	-	53
TOTAL:	**53**	**-**	**-**	**53**

INCOME AND EXPENSES for the period 01.01 – 30.06.2021

In thousands of dinars

Subsidiaries	Interest income	Fee and commission income and other income	Interest expenses	Fee and commission expenses	Net income / expenses
1. Com. Banka AD Podgorica	4,710	5,990	(280)	(3)	10,417
2. Kom.bank AD Banja Luka	2,522	1,679	-	(800)	3,401
3. KomBank INVEST	-	1,293	-	-	1,293
TOTAL:	**7,232**	**8,962**	**(280)**	**(803)**	**15,111**

Komercijalna Banka AD Beograd realized, in its transactions with subsidiaries, net negative exchange rate differences in the amount of 23,182 thousand dinars.

5. RISK MANAGEMENT

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

The Bank 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 Bank is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment. Since the Bank became a member of the NLB Group, during 2021 and on June 30, 2022, it harmonized with the risk management system of the Banking Group. The Bank was on June 30, 2022. continued with the process of harmonizing the risk management system in accordance with the methodologies at the level of the NLB Group.

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

With the risk management strategy, the Bank has set the following key objectives in risk management: regular identification, assessment and review of risks within the ICAAP and ILAAP processes; managing, monitoring, controlling and reporting on the risks to which it is exposed; defining limits in the Bank's risk appetite and their inclusion in the risk management strategy, ICAAP, ILAAP, Recovery Plan and business strategy; continuous development and improvement of risk management models and methodologies, including stress testing and early warning system (EWS system); assessing and measuring individual risks; establishing an appropriate decision-making system; managing the activities of restructuring and resolving disputed claims in a professional, efficient manner.

Recognizing the need to harmonize processes and risk management system of the Bank with the appropriate systems, processes and practices of the parent bank NLB dd, and the need for continuous improvement of risk management recommendations of the external auditor, the Bank has made appropriate changes of internal acts regulating risk management in 2022.

Risk Management System

The risk management system is defined by the following acts:

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

With it’s Risk Management Framework, the Bank defines the basic principles of the risk management, as well as a set of indicators that best represent the Bank's exposure to material risks (credit risk, liquidity risk, interest rate risk, foreign exchange risk, operational risk and adequacy capital). The Risk Management Framework defines a set of limits and targets for the listed risk exposure indicators. The Bank's risk management is harmonized with the Risk Management of NLB dd, and in accordance with the defined plan.

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

Also, the Risk Management Strategy defines the criteria for determining, as well as the basic principles of bas asset management and the highest acceptable level of bad assets for the Bank, as well as the basic principles of risk management arising from exposure in dinars with foreign currency clause and exposure in foreign currency.

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

- determination of target business activities and activities that are not acceptable for the Bank, in terms of assumed risks,
- determining the maximum amount of risk taken,
- monitoring the profitability of individual transactions in relation to the risks taken.

The Bank's risk management strategy is based on:

- strategic goals defined in the Bank's Business Strategy,
- guidelines on risk readiness to be defined in the Bank's Risk Appetite,
- regular annual review of strategic goals, business planning and capital planning process,
- Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP),
- activities and measures in case of activation of the Recovery Plan,
- other internal stress tests and risk analyzes,
- regulatory and internal reports,
- Risk appetite and Risk Management Strategy at the level of the NLB Group.

The Bank is guided by the main principles of risk management by:

- takes into account the main concept of risk appetite and the limits defined in the risk appetite of the Bank;
- includes risk analyzes in the decision-making process at the strategic and operational level in order to prevent risks posed by volatile exposures with a potentially negative outcome;
- applies diversification to avoid concentration at the portfolio level;
- includes and optimally uses capital and manages its allocation through business segments;
- creates an adequately balanced risk-weighted (adjusted) price;
- ensures overall compliance of operations through internal acts / documents;
- provides an adequate system of internal controls based on the "three lines of defense" model.

The Bank has established basic principles of risk management in order to meet its long-term goals:

- Taking over and managing risks is adjusted to the realization of the Bank's business strategy and plans;
- Risk assumption and management is based on a risk management system that is in accordance with the legislation in the Republic of Serbia, standards in the NLB Group and good business practice in this area;
- Taking over and managing risks is one of the key management functions in the Bank. This function is integrated into all business activities of the Bank, so that the phases of identifying, measuring and monitoring risks, on the one hand, and taking and managing risks, on the other hand, are clearly separated, while respecting the principle of independence;
- Risk assumption and management is based on the Risk Management Strategy and Policies. It is a documented process with clearly defined goals, activities, powers and responsibilities;
- Assumption and management of risks is determined according to the set legal and internally prescribed limits by risk categories, with clearly defined procedures in case of exceeding the limits;
- Taking and managing risks implies the establishment and implementation of an appropriate system of internal controls. These controls are a set of processes and procedures that include continuous verification, reporting and changes in order to develop or improve risk management systems.

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

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

The principles of risk management arising from RSD exposures with a foreign currency clause and foreign currency exposures include:

- The Bank manages FX exposures by setting limits,
- As a long-term goal, the Bank strives to reduce the share of FX exposures,
- The Bank establishes a limit in a way that optimizes the risk that may arise from the level of FX exposure and the realization of business strategy,
- Risk assessment of FX exposure is included in the credit process and clients are presented with the risks that may arise from changes in foreign exchange rates as well as proposed measures to mitigate the risk,
- When assessing the creditworthiness of the debtor, the Bank takes into account the risk of exchange rate changes in accordance with the defined rules,
- The level of risk arising from FX exposure is subject to regular reporting to the competent committees of the Bank,
- The Bank calculates the internal capital requirement for FX exposures.

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

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

With the Risk Management Procedures the Bank defines the risk management process and the responsibilities and responsibilities of all organizational parts of the Bank in the risk management system.

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

Jurisdiction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit risk is the risk of possible negative effects on the financial result and capital of the Bank due to non-fulfillment of obligations of debtors to members of the Bank.

And on June 30, 2022. The Russian-Ukrainian crisis is a special challenge in terms of credit risk management, as well as the increase in the reference interest rates of Central Banks in the world and in Serbia.

The Bank has defined criteria for granting loans, changing conditions, extending the deadline and restructuring the receivables, which are prescribed by procedures and methodologies for placement approval and risk management.

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

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

5.1. Credit risk

When making decisions, the principle of double control (the so-called "four-eye principle") is respected, which ensures that there is always a side which proposes and a side which approves a particular placement.

For placements contracted in foreign currency or in dinars with a currency clause, the Bank assesses the impact of changes in the dinar exchange rate on the financial condition and creditworthiness of the debtor, and in particular analyzes the adequacy of the debtor's cash flows in relation to the changed level of credit obligations due to changes in exchange rates.

Since the Bank became a member of the NLB Group at the end of 2020, in the upcoming period, loan origination and approval process will be additionally aligned with the established system at the level of the Banking Group.

The organizational model of the Bank'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 hand. The Bank has established an adequate information system that includes full information of persons involved in the credit risk management system.

Credit risk management

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

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

The basic principles of credit risk management are:

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

With the aim of credit risk management, the Bank strives to deal with clients with good creditworthiness and obtain appropriate collaterals. The Bank assess the creditworthiness of each client at the time of filing the application and monitor debtors, placements and collaterals in order to be able to undertake appropriate activities for the purpose of collecting receivables.

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

A rating system is an instrument for making individual decisions and assessing the level of risk of individual placements. In addition, the rating system serves to assess the level of risk of the total portfolio, and is also used in the process of impairment of placements in order to rank the level of risk and to show the real value of the receivables. Internal rating system is subject to regular audit and improvement. As part of the process of harmonization of the Bank's risk management system with the appropriate system at the level of the NLB Group, during 2021 as well as on June 30, 2022 the process of harmonization of the internal rating system began, which will be subject to additional improvements in the future.

In the credit risk analysis, in addition to the internal rating system, the Bank uses the principles prescribed by the regulations of the National Bank of Serbia, which require the classification of each placement based on the prescribed criteria and the calculation of the reserve for estimated losses. In December 2018, the National Bank of Serbia adopted an amendment to the regulations which, as of January 1, 2019 confirms the abolition of the calculation of reserves for estimated losses and required reserves.

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

The basic techniques of credit risk mitigation are:

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

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

The concentration risk includes: large exposures (exposure to one person or Bank of related persons and persons associated with the Bank), exposure Banks with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, and collaterals.

The Bank monitors exposure to defined limits with the same or similar risk factors and, depending on the general economic trends, trends in particular activities and geographical areas, the values set forth in the Business Plan of the Bank, 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 banks were obliged to monitor the risk of concentration or exposure of the bank towards group of products, primarily exposure to cash, consumer and other loans granted to retail sector of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

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

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

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

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

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

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

IFRS 9 Financial instruments

The Bank 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).

Considering that the Bank became a member of the NLB Group at the end of the year, during the 2021, the process of harmonizing impairment methodologies with the established rules at the level of the Banking Group began. In the 2021, the values of the hair cut for individual impairment of placements were adjusted, the material significance threshold for the impairment of NPE clients of individuals was changed (the threshold was increased from RSD 2.5 million to EUR 50,000), the calculation of impairment for placements that have a guarantee of the Republic of Serbia has been changed, and the PD for the calculation of impairment of securities of the Republic of Serbia has also been changed and the formula for the application of LGD has been changed. Also, the use of monthly PD instead of annual, using exposure to monthly amortization plans, included the effects of macroeconomic variables on the value of LGD secured and LGD unsecured, tested the value of hair cut with the historical realization of Bank collateral and adjusted hair cut these where there were deviations. The mentioned process of harmonization of the Impairment Methodology will continue in 2022.

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

Equity instruments, in entities other than subsidiaries that are not held for trading, are classified as assets whose value is measured at fair value through other results

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

Identification of NPL and restructured receivables

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

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

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

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

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

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

- changes in the contractual conditions for repayment of problematic receivables or which, in the absence of the above mentioned changes, would be classified as problematic receivables,
- a change in the contractual conditions for the repayment of receivables leading to total or partial write-off in a material amount,
- the Bank members activated the contractual restructuring clauses on the basis of which the terms of repayment change due to occurrence of certain events (embedded clauses) against the debtor from which the receivable has already been classified into a Bank of problematic receivables or would have been so classified if those clauses were not activated,
- if the debtor, at the same time as the new receivable was approved (or in the short period before or after that approval), paid on the basis of another receivable of the Bank (or other legal entity under which the receivable was transferred to that debtor), which has been classified or fulfilled conditions to be classified in a Bank of problematic ones or, in the absence of a new receivable, would be classified in the said Bank, that is, fulfil those conditions.

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

Modifications that result in the derecognition of the old financial asset and 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 Bank 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 indicates that in the event of a significant modification of a financial instrument, derecognition of old financial asset and recognition of the new one should be made 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.

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

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

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

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

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

Risk of asset quality change

During the 2021, the process of harmonizing the internal rating system with the appropriate system at the level of the NLB Group began, which will be subject to additional improvements in 2022. The quality of the Bank's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the debtor. The rating scale contains five risk categories, divided into 19 sub-categories. Different exposures to the same debtor define the same rating category, regardless of the specificity of the different types of loans.

The Bank uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities. A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Bank, a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitored and a high level of risk denotes clients with negative business results and bad credit history.

The Bank protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

Risk of asset quality change – impairment of assets

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

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

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

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that, realistically, the loan will be settled from these assets. The Bank assesses the impairment of receivables on a group and individual basis.

Individual and Group Assessment at Stage 3

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

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

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

Individual assessment

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

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

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

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

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

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

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and are stage 1 - standard clients and stage 2 - clients with identified credit risk increase, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Group estimates are carried out by the Bank 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 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.

During the integration, the previous behavior of clients in both banks was taken into account, and the consequently estimated level for certain clients was changed in some cases compared to the level of risk they had in the previous period.

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

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

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

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 losses for the lifetime of the instrument. In addition to qualitative and quantitative criteria for the classification to Stage 2, due to the conditions caused by the COVID-19 pandemic, during 2020 the Bank has transferred a significant number of clients from industries which are affected by the COVID-19 virus pandemic the most (catering, tourism, transport ...) to Stage 2 for the purpose of preventive action and a realistic view of impairment, given the possible negative consequences of the COVID-19 pandemic on the mentioned clients' operations. This was conducted through an structural analysis of portfolio per industry, as well as by the analysis of individual clients of corporate clients.

An analysis was carried out for all clients with the exposure above the defined threshold which are operating in industries exposed the most to negative effects caused by the COVID-19 pandemic. All clients that are deemed to be exposed to, or may be exposed to the effects of the COVID-19 virus pandemic, although they do not have previously defined criteria for transfer to Stage 2, in accordance with the IFRS 9, are immediately classified as Stage 2. Also, an analysis was conducted for clients in the retail segment who are employed in non-state-owned companies and non-public sectors and who are not pensioners. If the absence of earnings has been identified for these clients, or is reduced by an amount above the defined threshold, such clients have been transferred to Stage 2. Consequently, lifetime expected credit losses have been calculated for the specified clients.

On June 30, 2022, the Bank continued to grant benefits to clients affected by the COVID 19 pandemic in accordance with the NBS Decision (moratorium 3) and in accordance with the Decision of the Government of the Republic of Serbia (Guarantee Schemes 1 and 2).

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

The Bank calculates the 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 Bank calculates the expected credit losses (impairment) in the following way:

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

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

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

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

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

For the calculation of EAD for stage 1, the Bank assesses the possibility of default within 12 months for the calculation of a twelve month expected credit loss (ECL), that is, the impairment for a loan in the stage 1 is calculated, which is expected to result in payment inability of obligations in the period of 12 months from the balance sheet date. For stage 2, exposure to non-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 Bank is still exposed. Based on historical data, the Bank calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...).

In the part of the portfolio of individuals and agricultural clients, having in mind the different level of risk of the portfolio of two banks, before merging, the credit risk parameter includes the level of risk of both banks, through historical migration matrices, so as not to underestimate expected losses.

After calculating historical PDs, the Bank includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

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

Macroeconomic factors used in the impairment process

In defining macroeconomic assumptions, the Bank uses a set of different relevant external sources, as well as internal estimates. In order to determine the share of each of the scenarios for the purposes of calculating impairment, the positive and negative trends in the previous period (quarterly) of each of the variables that were found to be statistically significant were considered.

On June 30, 2022, positive economic trends were achieved. Real growth of quarterly gross domestic product, according to preliminary estimates of the Republic Bureau of Statistics in the first quarter of 2022 compared to the same quarter of the previous year, was 4.4%. Observed by activities, the highest real growth was recorded in the sectors:

- arts, entertainment and recreation (14.6% compared to minus 12.6% in Q1 2021)
- trade, transport and accommodation and food services (11.0% compared to minus 5.7% in Q1 2021)

Based on the projection of the National Bank of Serbia, in 2022, economic activity is expected to grow by 3.5-4.5% according to the latest available data, which will be dominantly driven by private sector investment, and private consumption growth, which is in line with the projections of real GDP growth used by the Bank. From the aspect of the production side, the biggest contribution to GDP growth is expected in the service sector.

Year-on-year inflation in June 2022, compared to the same month last year, amounted to 11.9%. Stronger growth of year-on-year inflation is the result of the dominant rise in energy prices, but also the rise in food prices due to cost pressures in production and transport. From the second halfof 2022, the growth of year-on-year inflation is expected to slow down.

The EURIBOR 6M (EuroIBOR - Euro Interbank Offered Rate) came out of the negative zone in June 2022, which was largely contributed to by the announcement of the normalization of interest rates by the European Central Bank. In July 2022,the European Central Bank raised 3 key interest rates by 50 basis points each. Consequently, the interest rate on the main refinancing operations was increased to 0.5%, whilethe rates on credit and deposit facilities are 0.75% and 0.00%, respectively. The future movement of EURIBOR will largely depend on the policy of the European Central Bank in the coming period, ie on the tightening of the monetary conditions of the European Central Bank.

The European Central Bank completed the Net Bond Purchase Program (PEPP) at the end of March 2022, with the reinvestment period continuing at least until the end of 2024. According to market participants, the EURIBOR rate is expected to further increase during 2022.

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

Calculation of credit risk impairment for stages 1 and 2

For impairment calculation for Stage 1 clients the Bank uses one-year PDs recalculated on a monthly basis for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

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

The values of the PD parameter are updated once a year, and more often if necessary.

LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD. The Bank, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument.

In that sense, the Bank applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Bank takes into account all internally available collaterals where there is an estimate of the probability of collectability.

Starting from 31.12.2021. and on June 30, 2022 In the calculation of LGD unsecured and LGD secured, the Bank included the influence of macroeconomic factors in the next three years, inventing three scenarios (optimistic, realistic and pessimistic).

In the part of the retail portfolio, having in mind the different level of risk of the portfolio of two banks, before merging, the level of risk of both banks is included in the credit risk parameters, through historical migration matrices, so as not to underestimate expected losses.

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

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Bank uses a different method of calculating impairment. The Bank does not have an adequate history in terms of migration and default exposure to countries and financial institutions.

When assessing the impairment and default risk exposure of financial instruments of the state, its bodies, central banks and financial institutions, it relies on defined estimates based on estimates by external rating agencies.

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

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

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

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

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 results.

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liability and the debtor is classified at stage 3. Also, for stages 1 and 2, the Bank establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for stage 1 and stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Bank reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Bank calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the Bank uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Bank's members. For unused commitments for which the Bank has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the Bank does not account for provisions based on unused commitments.

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

Means of protection against credit risk (collateral)

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

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

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

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

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

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

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

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

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

5.1.1. Total exposure to credit risk

The total exposure to credit risk as at June 30, 2022 and December 31, 2021 is shown in the table below, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

Total credit risk exposure

In thousands of RSD

	June 30, 2022		December 31, 2021	
	Gross	Net	Gross	Net
I. Assets	**566,157,904**	**543,596,527**	**509,774,490**	**489,440,405**
Cash and balances with the central bank	87,686,332	87,685,914	82,055,481	82,055,481
Loans and advances to banks and other financial institutions	15,351,343	15,332,383	29,135,282	29,114,381
Loans and receivables from customers	307,224,487	297,521,736	218,173,938	209,044,942
Financial assets (securities and derivatives)	121,868,963	121,832,356	149,596,997	149,588,755
Other assets	6,280,315	5,058,489	6,584,298	5,430,725
Non monetary assets	27,746,464	16,165,649	24,228,494	14,206,121
II. Off-balance sheet items	**107,851,373**	**107,549,242**	**61,730,331**	**61,521,512**
Payable guarantees	12,920,675	12,834,852	7,400,757	7,331,131
Performance guarantees	21,986,304	21,848,137	10,882,641	10,832,350
Irrevocable liabilities	72,909,608	72,849,280	43,413,347	43,344,379
Other	34,786	16,971	33,586	13,652
Total (I+II)	**674,009,277**	**651,145,769**	**571,504,821**	**550,961,917**

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

In thousands of RSD

June 30, 2022	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	66,780,501	329,160	810,025	67,919,686	65,564	2,072	488,832	556,468	67,363,218
Cash Loans	58,734,338	800,293	1,507,867	61,042,499	407,362	52,389	1,128,937	1,588,688	59,453,811
Agricultural Loans	23,920,395	354,864	273,182	24,548,440	336,776	52,739	180,113	569,628	23,978,812
Other Loans	4,564,956	62,830	251,623	4,879,408	25,500	3,179	225,271	253,951	4,625,458
Micro Business	12,930,093	857,606	348,682	14,136,382	258,727	36,451	192,268	487,446	13,648,936
Total retail	**166,930,284**	**2,404,754**	**3,191,378**	**172,526,416**	**1,093,929**	**146,830**	**2,215,422**	**3,456,181**	**169,070,235**
Large corporate clients	45,016,069	3,360,684	3,292,335	51,669,088	332,351	93,710	2,047,923	2,473,984	49,195,103
Middle corporate clients	28,687,001	1,303,480	221,441	30,211,922	178,644	11,699	152,327	342,671	29,869,252
Small corporate clients	8,173,774	359,273	488,140	9,021,187	92,390	14,565	138,467	245,421	8,775,766
State owned clients	25,281,547	10,114,401	2,513,568	37,909,516	183,246	450,631	964,723	1,598,599	36,310,917
Other	4,332,740	0	1,553,618	5,886,358	39,300	0	1,546,594	1,585,894	4,300,464
Total corporate	**111,491,131**	**15,137,838**	**8,069,103**	**134,698,071**	**825,930**	**570,605**	**4,850,035**	**6,246,570**	**128,451,501**
Total	**278,421,415**	**17,542,591**	**11,260,481**	**307,224,487**	**1,919,859**	**717,435**	**7,065,456**	**9,702,751**	**297,521,736**
Due from banks	**15,351,343**	**-**	**-**	**15,351,343**	**18,960**	**-**	**-**	**18,959**	**15,332,383**

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

In thousands of RSD

December 31, 2021	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	51,717,845	281,167	882,434	52,881,446	39,662	1,980	551,661	593,303	52,288,142
Cash Loans	39,752,894	307,923	556,759	40,617,576	227,845	16,431	440,670	684,946	39,932,630
Agricultural Loans	12,152,637	157,646	263,810	12,574,093	124,004	5,718	171,468	301,190	12,272,903
Other Loans	3,939,523	50,199	199,853	4,189,575	24,832	2,541	180,864	208,237	3,981,338
Micro Business	9,305,709	1,379,944	418,004	11,103,657	138,159	24,767	201,411	364,337	10,739,320
Total retail	**116,868,608**	**2,176,879**	**2,320,860**	**121,366,347**	**554,502**	**51,437**	**1,546,074**	**2,152,013**	**119,214,334**
Large corporate clients	38,090,634	2,686,374	4,173,753	44,950,761	479,645	181,813	2,746,853	3,408,311	41,542,450
Middle corporate clients	12,840,354	587,428	249,519	13,677,301	99,912	3,927	160,001	263,840	13,413,461
Small corporate clients	4,083,048	357,777	498,639	4,939,464	46,513	3,879	160,267	210,659	4,728,805
State owned clients	22,630,517	605,124	3,053,533	26,289,174	300,909	54,809	1,123,741	1,479,459	24,809,715
Other	5,433,373	-	1,517,518	6,950,891	104,640	-	1,510,073	1,614,713	5,336,178
Total corporate	**83,077,926**	**4,236,703**	**9,492,962**	**96,807,591**	**1,031,619**	**244,428**	**5,700,935**	**6,976,982**	**89,830,609**
Total	**199,946,534**	**6,413,582**	**11,813,822**	**218,173,938**	**1,586,121**	**295,865**	**7,247,009**	**9,128,995**	**209,044,943**
Due from banks	**29,135,282**	**-**	**-**	**29,135,282**	**20,901**	**-**	**-**	**20,901**	**29,114,381**

5.1.2 Problematic receivables

Participation of problematic receivables, Stage 3 in total loan

In thousands of RSD

June 30, 2022	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	**172,526,416**	**3,456,181**	**3,191,378**	**333,701**	**2,215,422**	**1,85%**	**2,350,480**
Housing Loans	67,919,686	556,468	810,025	84,322	488,832	1,19%	810,210
Cash Loans	61,042,499	1,588,688	1,507,867	166,999	1,128,937	2,47%	835,910
Agricultural Loans	24,548,440	569,628	273,182	45,441	180,113	1,11%	259,173
Other	4,879,408	253,951	251,623	13,147	225,271	5,16%	26,705
Micro Businesses	14,136,382	487,446	348,682	23,791	192,268	2,47%	418,483
Corporate clients	**134,698,071**	**6,246,570**	**8,069,103**	**5,230,545**	**4,850,035**	**5,99%**	**6,376,219**
Agriculture	4,877,883	36,609	-	-	-	0,00%	-
Manufacturing Industry	25,411,982	1,513,170	2,042,313	1,958,830	1,157,721	8,04%	2,042,094
Electric Energy	16,319,003	465,042	-	-	-	0,00%	-
Construction	16,343,006	100,812	52,898	18,215	35,619	0,32%	65,611
Wholesale and Retail	29,355,921	249,371	89,374	13,772	39,801	0,30%	91,020
Service Activities	21,266,988	1,420,242	2,838,964	2,258,176	1,274,124	13,35%	2,849,683
Real Estate Activities	8,932,219	115,569	602,648	302,525	94,611	6,75%	600,823
Other	12,191,071	2,345,757	2,442,905	679,027	2,248,158	20,04%	726,989
Total	**307,224,487**	**9,702,751**	**11,260,481**	**5,564,246**	**7,065,456**	**3,67%**	**8,726,699**
Due from banks	**15,351,343**	**18,959**	**-**	**-**	**-**	**0,00%**	**-**

Participation of problematic receivables, Stage 3 in total loans

In thousands of RSD

December 31, 2021	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	**121,366,347**	**2,152,013**	**2,320,860**	**165,776**	**1,546,074**	**1,91%**	**1,836,069**
Housing Loans	52,881,446	593,303	882,434	80,414	551,661	1,67%	882,104
Cash Loans	40,617,576	684,946	556,759	9,077	440,670	1,37%	187,051
Agricultural Loans	12,574,093	301,190	263,810	44,479	171,468	2,10%	253,643
Other	4,189,575	208,237	199,853	10,962	180,864	4,77%	16,532
Micro Businesses	11,103,657	364,337	418,004	20,844	201,411	3,76%	496,739
Corporate clients	**96,807,591**	**6,976,982**	**9,492,962**	**6,011,762**	**5,700,935**	**9,81%**	**7,844,168**
Agriculture	3,163,493	18,747	15,144	-	2,926	0,48%	30,248
Manufacturing Industry	16,822,078	1,555,048	2,183,388	2,108,437	1,271,793	12,98%	2,182,839
Electric Energy	5,144,496	67,359	-	-	-	0,00%	-
Construction	15,551,101	693,521	733,092	43,801	613,374	4,71%	738,069
Wholesale and Retail	19,363,305	293,294	83,137	15,912	32,894	0,43%	83,682
Service Activities	15,953,991	1,718,269	3,397,515	2,826,685	1,402,480	21,30%	3,407,376
Real Estate Activities	8,184,243	653,950	1,283,501	963,962	629,126	15,68%	1,295,817
Other	12,624,884	1,976,794	1,797,185	52,965	1,748,342	14,24%	106,137
Total	**218,173,938**	**9,128,995**	**11,813,822**	**6,177,538**	**7,247,009**	**5,41%**	**9,680,237**
Due from banks	**29,135,282**	**20,901**	**-**	**-**	**-**	**0,00%**	**-**

5.1.3. Nonproblematic receivables (Stage 1 and Stage 2)

In thousands of RSD

	June 30, 2022				December 31, 2021			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	67,054,593	55,069	67,109,661	65,920,306	51,980,174	18,838	51,999,012	51,005,399
Cash Loans	59,350,071	184,561	59,534,632	22,836,978	39,991,948	68,870	40,060,818	9,549,530
Agricultural Loans	24,192,985	82,273	24,275,259	23,720,691	12,277,055	33,228	12,310,283	11,877,066
Other Loans	4,614,811	12,975	4,627,786	209,550	3,982,438	7,283	3,989,721	196,778
Micro Businesses	12,701,600	1,086,099	13,787,700	20,122,073	10,101,387	584,266	10,685,653	10,606,918
Retail	**167,914,060**	**1,420,977**	**169,335,037**	132,809,597	**118,333,002**	**712,485**	**119,045,487**	83,235,691
Large corporate clients	43,711,247	4,665,506	48,376,753	49,030,435	36,644,209	4,132,799	40,777,008	40,842,438
Middle corporate clients	29,815,738	174,744	29,990,482	35,991,334	13,410,160	17,623	13,427,783	13,414,845
Small corporate clients	7,936,297	596,749	8,533,047	11,443,817	4,341,002	99,823	4,440,825	4,421,677
State owned clients	18,692,368	16,757,078	35,449,446	27,875,923	18,090,465	5,145,176	23,235,641	21,739,089
Other	3,031,565	1,247,677	4,279,241	3,737,167	3,523,808	1,909,564	5,433,372	4,222,590
Corporate Clients	**103,187,214**	**23,441,754**	**126,628,969**	128,078,676	**76,009,644**	**11,304,985**	**87,314,629**	84,640,639
Total	**271,101,274**	**24,862,732**	**295,964,006**	**260,888,274**	**194,342,646**	**12,017,470**	**206,360,116**	**167,876,330**
Due from banks	**15,351,343**	**-**	**15,351,343**	**-**	**29,135,282**	**-**	**29,135,282**	**-**

5.1.4. Restructured receivables

Measures that the Bank implements in the restructuring of receivables

The bank implements different restructuring measures depending on the needs of clients, respecting the Bank's interest in taking into account the complete business, financial and collateral position of clients.

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

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

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

5.1.5. Risk of concentration

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

5.2. Liquidity risk

In order to adequately manage liquidity risk, the Bank established an internal liquidity adequacy assessment process (ILAAP), which is conducted at least once a year. The internal liquidity adequacy assessment process provides comprehensive liquidity risk management and the establishment of a comprehensive internal assessment taking into account qualitative and quantitative elements. Qualitative elements describe strategies, procedures, methodologies, the established system of limits used in the Bank to manage and control liquidity risk, as well as liquidity management in crisis situations. Quantitative aspects of ILAAP are related to qualitative elements including insight into the fulfilment of prescribed limits, stress tests, gap analysis, liquidity ratios and other tools in order to successfully assess the liquidity position of the Bank.

The Bank adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month, as well as with regulated limits with a rigid liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month.

During 2022 the Bank has aligned its operations with a liquidity coverage ratio in all currencies, which maintains at a level not lower than 100%, i.e. internally defined limit. All liquidity indicators are in line with the limits after integration with NLB Beograd.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	30.06.2022	**31.12.2021**	**30.06.2022**	**31.12.2021**	**30.06.2022**	**31.12.2021**
On the day	3.07	3.88	2.90	3.65	239%	454%
Average for the period	3.33	4.18	3.13	3.94	320%	601%
Maximum for the period	3.95	4.68	3.76	4.42	427%	757%
Minimum for the period	2.44	3.51	2.21	3.37	239%	425%

During the 2022 liquidity ratio, rigid liquidity indicator and the liquidity coverage ratio ranged above the defined limits, as well as within the defined risk tolerance. The Bank has established a system of internal limits and the Risk Appetite Framework, in accordance with the Group's standards for structural liquidity indicators, as well as with the nature of the Bank's operations.

The Bank maintains a stable liquidity position and a sufficient and adequate level of liquidity reserves. Liquidity reserves are mostly in the form of cash and highly liquid debt government securities, which can be redeemed in a relatively short period of time. At the same time, the minimum amount of unsecured liquidity reserves to cover potential outflows in the event of stress is continuously monitored and maintained. In addition, the Bank complies with the limits of structural liquidity indicators, which are set in accordance with the Standards in the field of risk management in the NLB Group, and relate to the minimum level of available and unsecured liquidity reserves. The Bank also actively manages daily liquidity, in order to ensure timely settlement of due liabilities, taking into account the normal course of business and the emergency liquidity situation. In addition, the Bank limits and harmonizes operations with limits defined in terms of maturity by major currencies, as well as defined targets for diversification of funding sources.

Compliance with internally defined liquidity limits on the last day:	**Limits**	**June 30, 2022**	**December 31, 2021**
NSFR	Min 110%	186%	221%
Unsecured liquidity reserves	Min 15%	27%	39%
Self-financing indicator - LTD ratio	Max 105%	68%	52%
Share of non-banking sector deposits in total liabilities (excluding capital)	Min 65%	95%	97%

Strong stress test - 3 months	Min 100%	221%	186%

The report on the maturity structure of monetary assets and liabilities contains monetary balance sheet items distributed according to the remaining maturity, with the conservative assumption that all transaction and demand deposits will be withdrawn within one month.

The Bank collects deposits from legal entities and individuals, which usually have shorter maturities and can be withdrawn upon request. The short-term nature of these deposits increases the Bank's liquidity risk and requires active management of this risk, as well as constant monitoring of market trends.

In the short term, the Bank manages liquidity risk by monitoring and controlling positions in all major currencies, in order to assess the need for additional sources of financing in case of maturity of appropriate positions, i.e. plans long-term structure of its sources and placements to provide sufficient stable sources and liquidity reserves.

The Bank's management believes that the appropriate diversification of the deposit portfolio by number and type of depositors, as well as the Bank's previous experience provide a good precondition for a stable and long-term deposit base, i.e. no significant outflows are expected.

The Bank regularly conducts a liquidity risk stress testing process as well as a reverse liquidity stress test.

The results of the stress test show how long the Bank is ready to "survive" the given assumptions of the stress scenario. Based on the results of the stress test, it is determined whether the Bank has sufficient liquid assets to survive three months of severe stress.

The reverse stress test provides additional insight into the Bank's risk position by finding scenarios that could potentially lead to the Bank's problems and on the basis of which the Bank can identify its weaknesses. It may also influence future business decisions of the Bank.

The Bank regularly tests the Liquidity Management Plan in crisis situations and checks the survival period and solvency of the Bank, the availability of sources to cover liabilities that may arise, ie evaluates support in the assumed conditions of the crisis.

5.3 Market risks

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

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

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

5.3.1. Interest rate risk

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

The Bank manages the following types of interest rate risk:

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

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

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

The Bank processes the impact that could have a standardized interest rate shock (parallel positive and negative interest rate pops on the reference crisis yield by 200 basis points) for each significant value individually and for all other values individually

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

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

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

- GAP analysis and duration;
- Sensitivity analysis;
- Base risk analysis;
- Credit risk analysis - the impact of the sensitivity of credit spread changes on the securities portfolio.

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

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

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Bank's members on interest rate risk management. Internal limits are set within the risk appetite and refer to the indicator of the economic value of capital, the indicator of the credit spread on the portfolio of securities and the indicator of interest income.

During the first half of 2022, interest rate risk indicators were within internally defined limits.

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	30.06.2022	31.12.2021
Credit spread indicator - securities portfolio	7%	3.73%	5.37%
Interest income indicator (NII)	3.5%	1.28%	1.24%

Compliance with internally defined limits of economic value of capital:

	30.06.2022	31.12.2021
As of	3.12%	2.69%
Average for period	3.20%	2.77%
Maximum for period	4.05%	3.13%
Minimum for period	2.55%	1.44%
Limit	**8%**	**8%**

Risk of interest rate changes

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

In modelling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Bank on the basis of historical developments and expert assessments, is specifically considered, the Bank has carried out an estimate of the movement of transaction deposits, demand deposits and retail savings by applying relevant statistical models from domain analysis of time series.

Baseline scenarios for stress testing of economic value indicators of capital include: standard shock - parallel shift of the yield curve by +/- 400 bps for RSD and +/- 200 bps for other currencies, rotation of the curve as well as growth / decline of the short-term curve.

The modeling scenarios for stress testing of interest income indicators use assumptions in the part of yield curve change based on historical series of averages of quarterly differences between market and applied interest rates as well as the scenario of parallel shift of yield curve by 100 basis points for RSD currency and 50 basis points for currencies EUR, USD, CHF and other currencies collectively, observed in the period up to one year

The analysis of the Bank's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100/50 b.p.	Parallel reduction of 100/50 b.p.
2022		
As at June 30,	913,908	(913,908)
2021		
As at December 31,	812,124	(812,124)

5.3.2. Foreign exchange risk

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

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

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

- GAP analysis and foreign exchange risk indicator;
- VaR;
- Stress test;
- Backtesting.

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

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

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

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

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at June 30, 2022:

	June 30, 2022	December 31, 2021
Total risk foreign exchange position	3,131,620	1,306,182
Foreign exchange risk indicator	4,30%	2.00%
Regulatory limit	**20%**	**20%**

5.4. Operational risk

Operational risk is the risk of possible negative effects on the Bank's financial result and capital due to omissions (intentional and unintentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the bank, as well as unforeseen external events. Operational risk includes legal risk, but not strategic and reputational risk. However, due to its importance, reputational risk is taken into account in operational risk management. Operational risk is defined as an event that occurs as a result of inappropriate or failed internal processes, actions of employees and systems or systemic and other external events, internal and external fraud, employment and workplace safety practices, customer claims, product distribution, fines and penalties for injuries, damage to tangible assets, business disruptions and systemic failures and process management.

The Bank also monitors operational risk events along the following lines of business: financing of economic entities, trade and sales, brokerage operations with individuals, banking operations with companies, banking operations with individuals, payment operations, client account services and asset management.

The operational risk management process is an integral part of the Bank's activities implemented at all levels and enables identification, measurement, mitigation, monitoring and control and reporting of operational risks in accordance with regulatory requirements and deadlines. The existing process relies on reliable methods of measuring operational risk exposure , operational losses database, up - to - date control and reporting system.

The Bank monitor daily operational risk events and manage operational risks. In order to efficiently monitor operational risk, in each organizational part of the Bank, employees for operational risks are appointed, who are responsible for the accuracy and promptness of data on all operational risk events, as well as for recording all incurred events in the operational risk database. The organizational part of the Bank in charge of risk management monitors and reports on operational risks to the Bank's Board of Directors, the Bank's Executive Board, the Audit Committee, the Assets and Liabilities Committee and the Operational Risk Committee.

The Bank performs measurement and / or assessment of operational risk through a quantitative and /or qualitative assessment of the identified operational risk. The Bank conduct measurement of operational risk exposure through event logging, and self-evaluation. Key risk indicators are an early warning to signal changes in the Bank's risk profile. They relate to a specific operational risk and show greater exposure in the occurrence of operational risk events. Their purpose is to help reduce losses and operational risks through proactive consideration of risk factors.

The Bank's operational risk profile represents the Bank's exposure to operational risk and serves as a basis for making additional decisions, which would improve the existing operational risk profile and bring it closer to the target profile. The existing profile of identified operational risks is the result of the identification and assessment of operational risks within certain processes by organizational forms, which is carried out at least once a year. The existing operational risk profile includes operational risks that operational risk custodians (persons responsible for monitoring operational risks, as well as other employees) see within their organizational forms or outside them.

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

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

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

5.5. Risks of investment

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

5.6. Risk of exposure

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

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

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

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

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

5.7. Country risk

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

- Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Group to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;
- Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

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

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

The Bank's placements approved to debtors domiciled outside the Republic of Serbia for financing operations in the Republic of Serbia, whose financial obligations to the Bank are expected to be settled from the source of operations realized in the Republic of Serbia, represent the Bank's receivables.

5.8. Capital management

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

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

The main goals of managing the capital are:

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

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

Capital adequacy ratios		***In thousands of RSD***
	Jun 30,2022	**December 31, 2021**
Tier 1 capital	71,840,528	66,069,102
Common Equity Tier 1 capital	71,467,018	65,695,592
Additional Tier 1 capital	373,510	373,510
Tier 2 capital	1,761,083	-
Deductible items of capital	(698,184)	(713,172)
Capital	**72,903,426**	**65,355,930**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	257,016,274	194,363,632
Risk exposure amount for operational risk	41,635,311	34,534,805
Risk exposure amount for market risks	3,131,719	-
Capital adequacy ratio	**24.16%**	**28.55%**
Tier 1 capital adequacy ratio	**23.57%**	**28.55%**
Common Equity Tier 1 capital adequacy ratio	**23.45%**	**28.39%**

Compared to the previous year, the change in the capital adequacy ratio is influenced by the integration, ie the merger of the portfolio of the two banks, the growth of lending activity and the like.

During the first half of 2022, all prescribed capital adequacy ratios were above regulatory limits enlarged for the Srep's addition to the National Bank of Serbia.

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

During the first half of 2022, the Bank calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

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

- Strategic goals and the period for their realization;
- A description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- Procedures for planning an adequate level of available internal capital;
- The way to reach and maintain an adequate level of available internal capital;
- Restrictions on available internal capital;
- Demonstrating and explaining the effects of stress testing on internal capital requirements;
- Allocation of capital;
- Business plan in case of occurrence of unforeseen events.

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

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

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

The stages of the internal capital adequacy assessment process at the Bank include:

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- Calculation of stressed internal capital requirement for individual risks;
- Determining the total internal capital requirement;
- Comparison of the following elements:
  a. capital and available internal capital;
  b. minimum capital requirements and internal capital requirements for individual risks;
  c. the sum of minimum capital requirements and total internal capital requirements.
  d. regular monitoring of internal capital requirements and limits.

6. EVENTS AFTER THE BALANCE SHEET DATE

On 13.07.2022 NLB Ljubljana implemented the compulsory repurchase of the remaining ordinary and preferred shares from minority shareholders, in accordance with the decision adopted at the extraordinary General Meeting of Shareholders held on 29.06.2022. With this transaction, NLB d.d. Ljubljana became the only shareholder of NLB Komercijalna banka AD Beograd.

On 25.07.2022 a lawsuit was received from a private individual of 18.07.2022 in relation to ungrounded acquisition whereby the plaintiff claims an amount of RSD 204,811 thousand dinars, including penalty interest, for individually separated amounts.

Also, court cases were initiated by minority shareholders for revaluing the shares in the process of compulsory repurchase, in accordance with Article 521 of the Company Law.

An extraordinary General Meeting of Shareholders of NLB Komercijalna banka AD Beograd has been scheduled for August 22nd, with the aim of adopting a decision that the Bank withdraws from the stock exchange. The only item of the agenda is the adoption of the Decision on withdrawing the Banks' shares from the regulated market and terminating its capacity as a public company.

Apart from the events described in the previous paragraphs, there were no significant events after the balance sheet date that would need to be disclosed in the Notes to the financial statements for the second quarter of 2022.

7. FOREIGN EXCHANGE RATES

Exchange rates determined at the interbank meeting of the foreign exchange market applied for the conversion of balance sheet items into dinars (RSD) on 30.06. 2022 and 31 December 2021 for some major currencies are:

Currencies	Official NBS course	
	2022	2021
USD	112.2638	103.9262
EUR	117.4055	117.5821
CHF	117.6290	113.6388

In Belgrade,

On 11.08.2022

Persons responsible for drafting the financial statements

Sanja Đeković
Executive Director of the Accounting Management Department

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S T A T E M E N T

In our opinion, quarterly financial statements for the period 01.01.2022. to 30.06.2022. present fairly, in all material respects, the financial position of NLB Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the International Accounting Standards and International Financial Reporting Standards (IAS and IFRS).

Persons responsible for drafting the financial statements

Sanja Đeković	Dejan Janjatović
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S T A T E M E N T

Individual financial statements of NLB Komercijalna banka AD Beograd for the period 01.01.2022. until 30.06.2022. published in accordance with Law on Capital Market have not been audited.

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

Persons responsible for drafting the financial statements

Sanja Đeković Executive Director of the accounting management sector	Dejan Janjatović Deputy Chief Executive Officer