2021 SEMI-ANNUAL CONSOLIDATED REPORT OF KOMERCIJALNA BANKA GROUP

Belgrade, August 2021

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KOMERCIJALNA BANKA AD BEOGRAD
NLB GRUPA

BUSINESS REPORT OF THE GROUP KOMERCIJALNA BANKA AD BEOGRAD FOR THE PERIOD FROM January 1 TO June 30, 2021

Belgrade, August 2021

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The consolidated financial statements of the Banking Group are presented in thousands of dinars. The dinar represents the official reporting currency in the Republic of Serbia and the functional currency of Komercijalna banka ad Beograd (hereinafter referred to as the "Parent Bank").

Functional currencies, EUR from the financial statements of Komercijalna banka ad Podgorica and BAM from the financial statements of Komercijalna banka ad Banja Luka, are converted into the reporting currency of the Parent Bank - dinar (RSD) based on officially published exchange rates in the Republic of Serbia.

The Consolidated Income Statement and the Consolidated Cash Flow Statement for the period were calculated by using the average official exchange rate in the Republic of Serbia for the first six months of 2021 of 117.5761 for one EUR and 60.1157 for one BAM, while other consolidated financial statements (Balance sheet, Statement of changes in equity and Statement of profit or loss) by using the closing rate at the balance sheet date of 117.5660 for one EUR or 60.1105 for one BAM.

Changes in business operations made in foreign currency are converted into dinars calculated at the middle exchange rate determined on the interbank foreign exchange market, which is valid on the day of the operational change.

Assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are converted into dinars calculated at the middle exchange rate determined on the interbank foreign exchange market valid on that day.

1. BASIC INDICATORS OF THE GROUP BUSINESS OPERATIONS

Report for the period from January 1 to June 30, 2021, presents a credible overview of the development and business results of the Group KOMERCIJALNA BANKA AD Beograd, achieved in the first six months of 2021.

DESCRIPTION	6/30/2021	6/30/2020	INDEXES 2021/2020	2019	2018	2017
(in thousands of RSD and %)						
Profit / Loss before taxes	652,934	3,007,028	21.7	7,726,328	8,381,166	7,316,383
Profit / Loss after tax	789,709	2,859,349	27.6	8,399,865	8,380,334	8,267,996
Net interest income	6,550,661	6,560,733	99.8	13,770,518	13,946,644	13,517,238
Net fee income	2,777,560	2,559,330	108.5	5,727,124	5,540,447	5,413,601
PROFITABILITY PARAMETERS[1]						
ROA	0,25%	1,24%	20.6	1,68%	1,99%	1,77%
ROE (on total capital)	1,67%	7,69%	21.7	10,24%	12,09%	11,58%
Net interest margin on total assets	2,55%	2,70%	94.6	3,00%	3,31%	3,26%
Cost / income ratio	67,80%	72,21%	93.9	63,67%	60,41%	64,02%
Operating costs	6.324.548	6,585,915	96.0	12,414,562	11,772,192	12,119,512
Net income/expenses from impairment of financial assets which are not measured at fair value through profit or loss statement	(1,022,910)	(104,626)	-	1,587,676	51,681	36,342

DESCRIPTION	6/30/2021	12/31/2020	INDEXES 2021/2020	2019	2018	2017
Consolidated balance sheet assets	527,068,148	500,295,263	105.4	475,755,894	441,586,959	400,108,316
Off-balance sheet business	529,217,721	534,330,733	99.0	503,834,838	496,783,044	507,345,996
Loans and receivables from banks and other financial organizations	45,534,005	18,865,483	241.4	26,990,004	21,037,537	30,233,555
Loans and receivables from clients	224,500,357	219,433,627	102.3	208,234,158	191,448,642	174,242,139
Deposits and other liabilities to banks, other financial institutions, and the central bank	5,912,974	8,096,190	73.0	8,318,606	8,228,284	6,137,776
Deposits and other liabilities to other clients	431,058,218	406,192,067	106.1	370,987,710	350,668,156	317,577,748
CAPITAL	78,601,073	77,562,130	101.3	79,371,576	71,522,051	67,100,116
Capital adequacy	27,22%	28,82%	94.4	27,05%	25,22%	24,56%
Number of employees	2,730	2,985	91.5	3.056	3.076	3.106
Assets per employee (*in thousands of RSD)*	193.065	167.603	115.2	155,679	143,559	128,818
Assets per employee (*in thousands of EUR)*	1,642	1,425	115.2	1,324	1,212	1,087

[1] Profitability parameters are shown on an annual basis

2. BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE GROUP

The Banking Group consists of three banks, namely Komercijalna banka a.d. Beograd (The Parent Bank), Komercijalna banka a.d. Banja Luka, Komercijalne banka a.d. Podgorica (subsidiary banks), and UCITS Fund Management Company KOMBANK INVEST a.d. Beograd.

The Parent Bank is registered in the Republic of Serbia for performing credit, deposit, and guarantee operations, as well as for performing payment operations, in the country and abroad. Within the registered activities, the Parent Bank performs the following operations:

- deposit operations (receiving and placing deposits);
- credit operations (lending and borrowing);
- foreign exchange operations, foreign currency and foreign exchange transactions;
- payment operations;
- issuance of payment cards;
- securities transactions (issuance of securities, custody bank transactions, etc.);
- broker-dealer operations;
- issuing guarantees, sureties, and other forms of warrantees (guarantee operations);
- purchase, sale, and collection of receivables (factoring, forfeiting, etc.);
- insurance representation activities, with the prior consent of the National Bank of Serbia;
- affairs for which it is authorized by law.

The Parent Bank has been authorized to perform payment transactions abroad since 2003, to perform the activities of a broker-dealer company since 2005, to perform the activities of a custodian bank since 2006, and to perform insurance representation activities since 2011.

Komercijalna banka a.d. Banja Luka is registered in Bosnia and Herzegovina for performing payment operations and credit and deposit operations in Bosnia and Herzegovina and abroad in accordance with the regulations of the Republic of Srpska. Komercijalna banka a.d. Banja Luka performs the following operations:

- receiving and placing deposits and other refundable funds;
- lending;
- issuing guarantees and all forms of warranties;
- domestic and international payment and money transfer services, in accordance with special regulations;
- buying and selling foreign currency and precious metals;
- issuing and managing means of payment (including payment cards, traveler's and bank checks);
- financial leasing;
- purchase and sale of securities;
- affairs for which it is authorized by law.

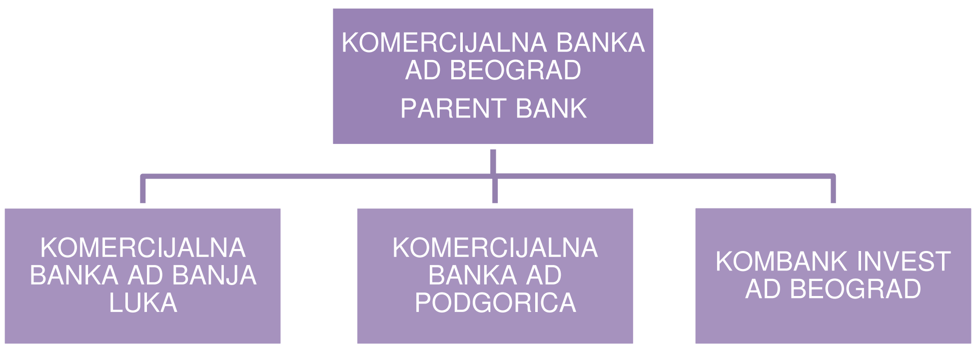
Komercijalna banka a.d. Podgorica is registered in Montenegro to perform the business of receiving deposits and other funds from natural persons and legal entities and granting loans and other placements from these funds, in whole or partially, for its own account. Komercijalna banka a.d. Podgorica performs the following operations:

- deposit operations (receiving and placing deposits);
- credit operations (lending and borrowing);
- issuing guarantees and assumes other obligations;
- buys and collects receivables;
- issues, processes, and records payment instruments;
- international payment transactions;
- financial leasing;
- trades in its own name and for its own account or for the account of clients with foreign means of payment;
- collects data, performs analyzes, and provides information and advice on the creditworthiness of companies and entrepreneurs;
- depository operations;
- safekeeping of funds and securities;
- other ancillary activities in the domain of the Bank's operations.

UCITS fund management company KOMBANK INVEST a.d. Beograd is registered to perform the following activities:

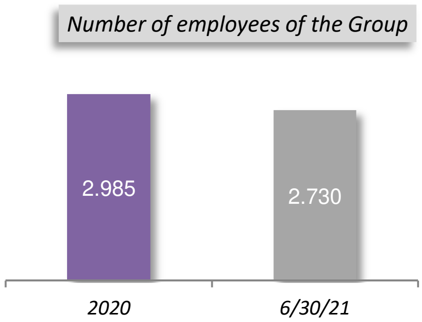
- organizing and managing open-end investment funds;
- establishment and management of closed-end investment funds;
- management of private investment funds;
- other tasks in accordance with the law governing the capital market, i.e. the tasks of a portfolio manager and investment advisor.

Organizational structure of the Group



Human Resources of the Group

On 6/30/2021, the Group had a total of 2,730 employees, 255 less than at the beginning of the business year. The decrease by 233 employees occurred in the Parent Bank, in KB Banja Luka it was 14 employees, while KB Podgorica reduced the number of employees by 8. KomBank Invest kept the same number of employees as at the beginning of the year. The optimization of the personnel structure with the members of the KB Group was carried out in accordance with the standards of the NLB Group, of which the KB Group also became a member starting as of December 31, 2020.



Due to the growth of business volume and optimization of the number of employees, consolidated assets per employee at the end of the first half of 2021 increased by 15.2% and amounted to 193,065 thousand dinars compared to the end of the previous year when it amounted to 167,603 thousand dinars.

Basic information about the members of the Group

	KOMERCIJALNA BANKA AD BANJA LUKA	KOMERCIJALNA BANKA AD PODGORICA	KOMBANK INVEST AD BEOGRAD
ADDRESS OF THE REGISTERED SEAT	69, Jevrejska Street	11, Cetinjska Street PC The Capital Plaza, Kula PC1, VI floor	19, Kralja Petra Street
COUNTRY	BiH, Republic of Srpska	Montenegro	Serbia
TELEPHONE	00387-51-244-700	00382-20-426-300	00381-11-330-8310

KOMERCIJALNA BANKA AD BANJA LUKA

99.998% owned by KB Beograd

Komercijalna banka a.d. Banja Luka was established in September 2006 and on September 15, 2006, it was entered in the court register by the Decision of the Basic Court in Banja Luka. On June 30, 2021, the Bank had 149 employees and a business network consisting of the Central Bank, 10 branches, and 9 agencies.

KOMERCIJALNA BANKA AD PODGORICA

100.0% owned by KB Beograd

Komercijalna banka a.d. Podgorica was established in November 2002 as an affiliate of Komercijalna banka ad Beograd and entered in the central register of the Commercial Court in Podgorica on March 6, 2003. On June 30, 2021, the Bank had 140 employees and a business network consisting of 9 branches and 1 branch office.

KOMBANK INVEST AD BEOGRAD

100.0% owned by KB Beograd

UCITS fund management company **KOMBANK INVEST a.d. Beograd** is a company registered in the Register of Business Entities of the Serbian Business Registers Agency on February 5, 2008. The Company was established as a non-public joint-stock company operating in accordance with the Law on Open-End Investment Funds with Public Offering, the Rulebook on Open-End Investment Funds with Public Offering, and the Rulebook on Conditions for Conducting the Activities of Open-End Investment Fund Management Companies.

The company manages three investment funds, as follows:

1. KOMBANK IN FOND, UCITS- balanced,
2. KOMBANK NOVČANI FOND, UCITS- preservation of property value,
3. KOMBANK DEVIZNI FOND, UCITS- preservation of property value.

On June 30, 2021, the Company had five employees.

Basic information on the Parent Bank

Address/Head offices/ Divisions	14, Svetog Save Street	42-44, Svetogorska Street	Trg Politike 1
TELEPHONE	381-11-30-80-100	381-11-32-40-911	381-11-33-39-001
FAX	381-11-344-23-72	381-11-32-35-121	381-11-33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E-mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

KOMERCIJALNA BANKA AD BEOGRAD*
88,28% owned by Nova Ljubljanska banka d.d. Ljubljana

* shareholders above 5% of the capital-ordinary shares on June 30, 2021

KOMERCIJALNA BANKA
NLB Group

Komercijalna banka a.d. Beograd, the Parent Bank was founded on December 1, 1970, and transformed into a joint-stock company on May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered with the Serbian Business Registers Agency on April 14, 2006. The Bank received a banking license from the National Bank of Yugoslavia on July 3, 1991. On June 30, 2021, the Parent Bank has 2,436 employees and a business network consisting of 6 business centers, one branch (Kosovska Mitrovica), 200 branch offices, 3 sectors for work with small and medium enterprises (Belgrade, Central Serbia, Vojvodina), and a sector for work with the corporate - large clients.

Business network of the Parent Bank

	BUSINESS CENTERS	HEAD OFFICE
1.	BC Beograd 1	Trg Politike 1, Belgrade
2.	BC Beograd 2	Trg Politike 1, Belgrade
3.	BC Kragujevac	2, Moše Pijade Street, Požarevac
4.	BC Niš	32, Episkopska Street, Niš
5.	BC Novi Sad	Bulevar oslobođenja 88, Novi Sad
6.	BC Užice	4, Petra Ćelovića Street, Užice
	BRANCH	**HEAD OFFICE**
1.	Kosovska Mitrovica	11, Čika Jovina Street, Kosovska Mitrovica

	SECTORS	HEAD OFFICE
1.	Sector for operations with the corporate - large clients	42-44, Svetogorska Street, Belgrade
2.	Sector for operations with small and medium companies - Vojvodina	Bulevar oslobođenja 88 Novi Sad
3.	Sector for operations with small and medium companies - Belgrade	42-44, Svetogorska Street, Belgrade
4.	Sector for operations with small and medium companies - Central Serbia	42-44, Svetogorska Street, Belgrade

Business operations in the segment of retail affairs, on June 30, 2021, the Parent Bank executed through a network of 200 branch offices grouped into six Business Centers and the Kosovska Mitrovica Branch.

Work with legal entities took place through three Sectors for operations with the small and medium companies (Vojvodina, Belgrade, and Central Serbia) and the Sector for operations with corporative - large clients.

3. FINANCIAL POSITION AND OPERATING RESULTS OF THE GROUP

3.1. Macroeconomic operating conditions

Macroeconomic indicators	*SERBIA*	*REPUBLIC OF SRPSKA*	*MONTENEGRO*[2]
Gross domestic product (GDP)	EUR 46.5 bil[3]	EUR 5.7 bil[4]	EUR 4.6 bil
GDP trends	1.7%[5]	-2.8%[6]	-6.4%[7]
Consumer Price Index (CPI) (VI 2021 / VI 2020)	+3.3%[8]	+1.5%[9]	+2.4%[10]
Movement of assets of the banking sector	+4.0%[11]	+21.6%[12]	+4.8%[13]
Share of banking sector assets in GDP	342.5%[14]	88.0%[15]	103.8%[16]
Movement of industrial production	+10.1%[17]	+19.9%[18]	+2.2%[19]
NPL of the banking sector	3.7%[20]	5.2%	11.6%[21]
Unemployment rate	12.8%[22]	15.6%[23]	23.58%[24]

Note: Macroeconomic business conditions of the Group members according to the available data of the competent institutions

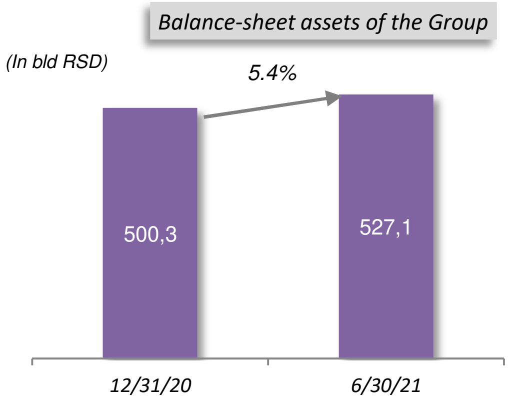
3.2. Business operations of the Group in the period from January 1 to June 30, 2021

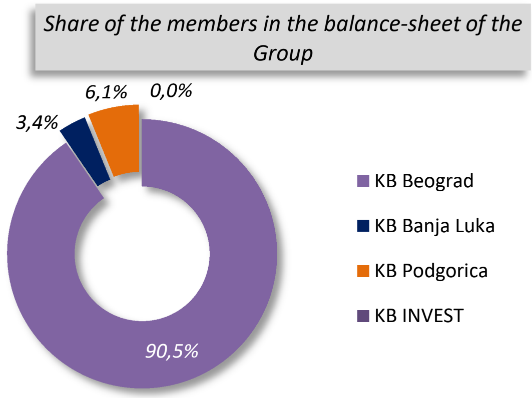
The first negative effects on business conditions due to the COVID-19 coronary virus pandemic in the world and Europe are recorded at the end of 2019 and at the beginning of 2020. In the Balkan region, negative effects in business have been present since mid-March 2020. The pandemic continued in the first half of 2021.

Despite operating in relatively unfavorable and changed macroeconomic conditions in the Republic of Serbia and in the close region where subsidiaries operate, the Group recorded a positive movement of balance sheet assets in the first six months of 2021.

DESCRIPTION	6/30/2021	2020	2019	2018	2017
(in thousands of RSD)					
BALANCE SHEET ASSETS OF THE GROUP	**527,068,148**	**500,295,263**	**475,755,894**	**441,586,959**	**400,108,316**
Komercijalna banka ad Beograd	476,838,337	455,152,974	428,857,730	398,447,676	366,074,702
Komercijalna banka ad Banja Luka	32,266,747	27,879,636	29,256,166	27,624,178	20,075,186
Komercijalna banka ad Podgorica	17,787,152	17,088,819	17,472,505	15,353,955	13,801,705
KomBank INVEST ad Beograd	175,912	173,834	169,493	161,150	156,723

2 Central Bank of Montenegro, Indicators of the financial stability, June 2021
3 NBS, basic macroeconomic indicators, June 2021, balance on 12/31/2020
4 Information refers to 2020
5 NBS, basic macroeconomic indicators, balance at the end of the first quarter 2021
6 Statistical Office of the Republic of Serbia, data refers to Q4 2020/Q4 2019
7 Data refers to the period I-III 2021
8 Statistical Office of the Republic of Serbia, press release, June 2021, data refer to June 2021/June 2020.
9 Data refers to May 2021/May 2020
10 The data refer to the period May 2021/May 2020
11 Growth of assets of the banking sector of Serbia June 30, 2021/December 31, 2020
12 Data refers to the period March 2021/2020
13 Data refers to the period June 30, 2021/December 31, 2020
14 Data refers to the first quarter of 2021
15 Data refers to 2021
16 Data refers to June 30, 2021
17 Statistical Office of the Republic of Serbia, Movement of industrial production, January-April 2021/January-April 2020
18 Data refers to the period January - May 2021/January - May 2020
19 Data refers to the period May 2021/May 2020
20 NBS, Macroeconomic movements in Serbia, July 2021, data refers to May 2021 (NPL/total loans),
21 Central Bank of Montenegro, Financial Stability Indicators, June 2021 (data for the period April 30, 2021/December 31, 2020)
22 Statistical Office of the Republic of Serbia, Labor Force Survey, Q1 2021
23 Unemployment rate survey for 2021
24 Data refers to July 31, 2021

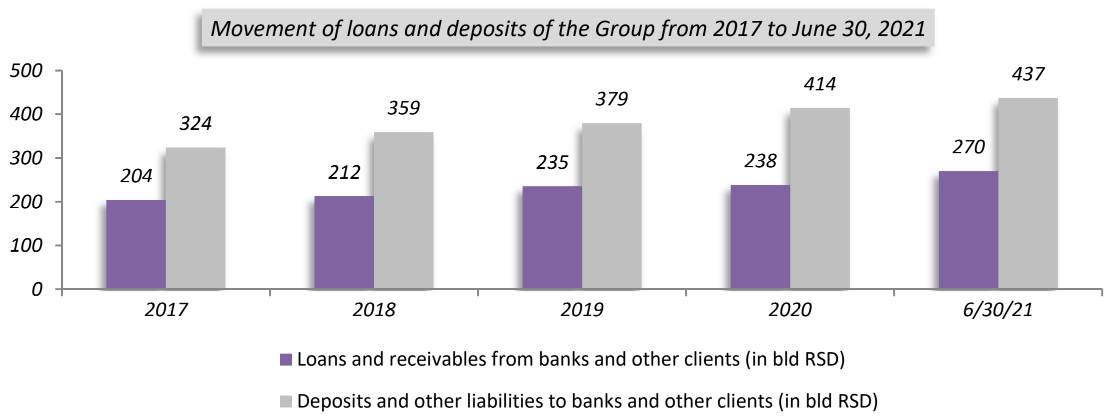




The balance-sheet assets of the Group at the end of June 2021 amounted to 527,068.1 million dinars and compared to the beginning of the year, increased by 26,772.9 million dinars (5.4%). The share of the Parent Bank in the consolidated assets is still dominant and amounts to 90.5% (the Group members make up to 9.5% of the total consolidated assets).

Loans and deposits of banks and clients on June 30, 2021, by members of the Group

DESCRIPTION	6/30/2021	2020	2019	2018	2017
(in thousands of RSD)					
LOANS AND RECEIVABLES FROM BANKS AND CLIENTS	**270,034,362**	**238,299,110**	**235,224,162**	**212,486,179**	**204,475,694**
Percentage of growth	13.32%	1.31%	10.7%	3.9%	(2.5%)
Komercijalna banka ad Beograd	238,535,809	206,597,421	205,497,840	185,917,193	182,944,400
Komercijalna banka ad Banja Luka	18,547,774	18,873,327	18,734,989	16,811,744	13,647,511
Komercijalna banka ad Podgorica	12,934,699	12,811,983	10,974,943	9,740,866	7,883,783
KomBank INVEST ad Beograd	16,080	16,379	16,390	16,376	-
DEPOSIT AND LIABILITIES TO BANKS AND CLIENTS	**436,971,192**	**414,288,257**	**379,306,316**	**358,896,440**	**323,715,524**
Percentage of growth	5.48%	9.22%	5.7%	10.9%	(8.8%)
Komercijalna banka ad Beograd	393,831,046	376,433,132	339,234,701	321,271,358	295,755,134
Komercijalna banka ad Banja Luka	27,698,066	23,109,297	24,601,533	23,547,061	15,803,267
Komercijalna banka ad Podgorica	15,442,080	14,745,828	15,470,082	14,078,021	12,157,123
KomBank INVEST ad Beograd	-	-	-	-	-



Participation of the Parent Bank in loans and receivables from banks and other clients at the level of the entire Group, on June 30, 2021, was 88.3% (on 12/31/2020 it was 86.7%), the share of KB Banja Luka was 6.9% (on 12/31/2020 it was 7.9%), while KB Podgorica participated with 4.8% (on 12/31/2020 it participated with 5.4%).

The participation of the Parent Bank in deposits and other liabilities to banks and other clients of the Group is also dominant with 90.1% (it was 90.9% on 12/31/2020), KB Banja Luka participates with 6.3% (on 12/31/2020 it participated with 5.6%), while KB Podgorica participates with 3.5% (on 12/31/2020 it participated with 3.6%).

3.3. Consolidated balance sheet as of 6/30/2021

Consolidated assets of the Group as of 6/30/2021

Ord. no.	DESCRIPTION	6/30/2021	12/31/2020	INDEXES	SHARE 6/30/2021
1	2	3	4	5=(3:4)*100	6
	ASSETS (*in thousands of RSD)*				
1.	Cash and funds with the central bank	89,067,301	86,892,070	102.5	16.9
2.	Pledged financial resources	-	-	-	-
3.	Derivative receivables	-	-	-	-
4.	Securities	149,766,598	158,438,656	94.5	28.4
5.	Loans and receivables from banks and other financial organizations	45,534,005	18,865,483	241.4	8.6
6.	Loans and receivables from clients	224,500,357	219,433,627	102.3	42.6
7.	Changes in the fair value of items that are subject to risk protection	-	-	-	-
8.	Receivables from derivatives intended for hedging	-	-	-	-
9.	Investments in associates and joint ventures	-	-	-	-
10.	Investments in subsidiaries	-	-	-	-
11.	Intangible assets	454,663	578,413	78.6	0.1
12.	Property, plant, and equipment	6,458,975	6,743,199	95.8	1.2
13.	Investment property	2,221,956	2,145,007	103.6	0.4
14.	Current tax assets	27,538	19,661	140.1	0.0
15.	Deferred tax assets	2,484	2,484	100.0	0.0
16.	Fixed assets held for sale and assets of discontinued operations	405,578	370,663	109.4	0.1
17.	Other funds	8,628,693	6,806,000	126.8	1.6
	TOTAL ASSETS (from 1 to 17)	**527,068,148**	**500,295,263**	105.4	100.0

The largest share of the individual balance sheet items, in the Group's balance sheet assets, had loans and receivables from clients (42.6%) which have a growth trend during the first half of 2021 (compared to the beginning of the year it increased by 2.3% i.e. RSD 5,066.7 million).

Securities represent a significant position of consolidated assets with a share of 28.4%. Placements in securities decreased at the end of the first half of 2021 (compared to the beginning of the year, they decreased by 5.5%, i.e. by RSD 8,672.1 million).

Cash and funds with the central bank participated in the total consolidated assets with 16.9% and compared to the beginning of the year, they increased by 2.5%, i.e. by RSD 2,175.2 million.

Balance sheet position loans and receivables from banks and other financial organizations account for 8.6% of consolidated balance sheet assets and compared to the beginning of the year recorded an increase of RSD 26,668.5 million or 141.4% (mostly as a result of an increase with Komercijalna banka a.d. Beograd).

Consolidated liabilities of the Group as of June 30, 2021

Ord. no.	DESCRIPTION	6/30/2021	12/31/2020	INDEXES	SHARE 6/30/2021
1	2	3	4	5=(3:4)*100	6
	LIABILITIES *(in thousands of RSD)*				
1.	Liabilities based on derivatives	-	-	-	-
2.	Deposits and other liabilities to banks, other financial institutions, and the central bank	5,912,974	8,096,190	73.0	1.1
3.	Deposits and other liabilities to other clients	431,058,218	406,192,067	106.1	81.8
4.	Liabilities based on derivatives intended for risk protection	-	-	-	-
5.	Changes in the fair value of items that are subject to risk protection	-	-	-	-
6.	Liabilities based on securities[25]	-	-	-	-
7.	Subordinated obligations	-	-	-	-
8.	Provisions	3,523,236	2,696,346	130.7	0.7
9.	Liabilities based on assets held for sale and assets suspended	-	-	-	-
10.	Current tax liabilities	-	2,079	0.0	0.0
11.	Deferred tax liabilities	85,979	176,573	48.7	0.0
12.	Other obligations	7,886,668	5,569,878	141.6	1.5
13.	**TOTAL LIABILITIES (from 1 to 12)**	**448,467,075**	**422,733,133**	106.1	85.1
	CAPITAL				
14.	Share capital	40,034,550	40,034,550	100.0	7.6
15.	Profit	5,720,556	4,811,998	118.9	1.1
16.	Loss	1,384,190	1,261,380	109.7	0.3
17.	Reserves	34,230,087	33,976,892	100.7	6.5
18.	Unrealized losses	-	-	-	-
19.	Participation without the controlling right	70	70	100.0	0.0
20.	**TOTAL CAPITAL (from 14 to 19)**	**78,601,073**	**77,562,130**	101.3	14.9
21.	**TOTAL LIABILITIES (13 + 20)**	**527,068,148**	**500,295,263**	105.4	100.0

On the side of consolidated liabilities, deposits and other liabilities to other clients are dominant with a share of 81.8%. The position of deposits and other liabilities to other clients have increased compared to the beginning of the year by RSD 24,866.2 million dinars or by 6.1%.

In the consolidated liabilities, the total capital participated with 14.9% (the share of this position as of December 31, 2020, was 15.5%). Compared to the beginning of the year, the total accounting capital of the Group increased by RSD 1,038.9 million, primarily as a result of the change in the accounting capital of Komercijalna banka a.d. Beograd.

[25] Securities

3.4. Consolidated balance sheet as of 6/30/2021 – members of the banking Group

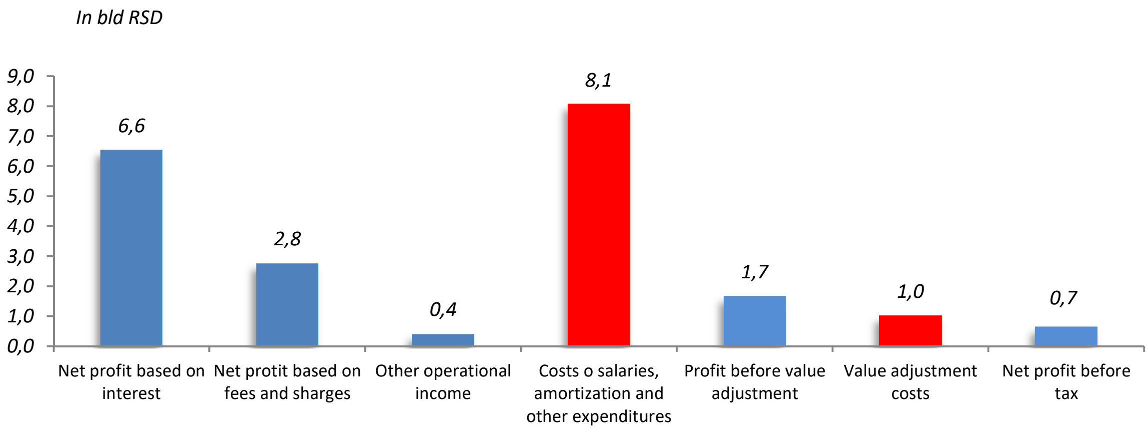
Ord. no.	DESCRIPTION	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	ASSETS/position (in 000 RSD)					
1.	Cash and funds with the central bank	76,805,654	9,728,902	2,532,745	-	89,067,301
2.	Derivative receivables	-	-	-	-	-
3.	Securities	145,092,815	3,212,047	1,306,809	154,927	149,766,598
4.	Loans and receivables from banks and other financial organizations	43,085,530	1,654,038	778,357	16,080	45,534,005
5.	Loans and receivables from clients	195,450,279	16,893,736	12,156,342	-	224,500,357
6.	Intangible assets	397,853	33,474	23,336	-	454,663
7.	Property, plant, and equipment	5,821,893	316,947	320,023	112	6,458,975
8.	Investment property	1,950,289	198,584	73,083	-	2,221,956
9.	Current tax assets	18,911	8,550	-	77	27,538
10.	Deferred tax assets	-	-	-	2,484	2,484
11.	Fixed assets held for sale and assets of discontinued operations	130,426	144,307	130,845	-	405,578
12.	Other funds	8,084,687	76,162	465,612	2,232	8,628,693
13.	**TOTAL ASSETS (from 1 to 12)**	**476,838,337**	**32,266,747**	**17,787,152**	**175,912**	**527,068,148**
	LIABILITIES/position					
14.	Deposits and other liabilities to banks, other financial organizations, and the central bank	1,772,079	3,874,830	266,065	-	5,912,974
15.	Deposits and other liabilities to other clients	392,058,967	23,823,236	15,176,015	-	431,058,218
16.	Reservations	3,340,103	43,196	124,478	15,459	3,523,236
17.	Current tax liabilities	-	-	-	-	
18.	Deferred tax liabilities	59,910	17,666	8,403	-	85,979
19.	Other obligations	7,345,877	370,437	168,624	1,730	7,886,668
20.	**TOTAL LIABILITIES (from 14 to 19)**	**404,576,936**	**28,129,365**	**15,743,585**	**17,189**	**448,467,075**
21.	**Total capital**	**78,178,686**	**618,987**	**(215,196)**	**18,596**	**78,601,073**
22.	**TOTAL LIABILITIES (20 + 21**	**482,755,622**	**28,748,352**	**15,528,389**	**35,785**	**527,068,148**

Observed by segments of the consolidated Balance sheet, Komercijalna banka a.d. Podgorica on 6/30/2021, has carried negative capital as a result of the consolidation of positions within the capital due to the elimination of internal relations when the share capital is reduced to zero primarily due to the fact that the Parent Bank is the sole owner of Komercijalna banka a.d. Podgorica and at the same time, due to the negative result from the previous period, which is higher than the amount of formed reserves and realized profit. Equity in the individual financial statements of Komercijalna banka a.d. Podgorica is within the legally prescribed framework.

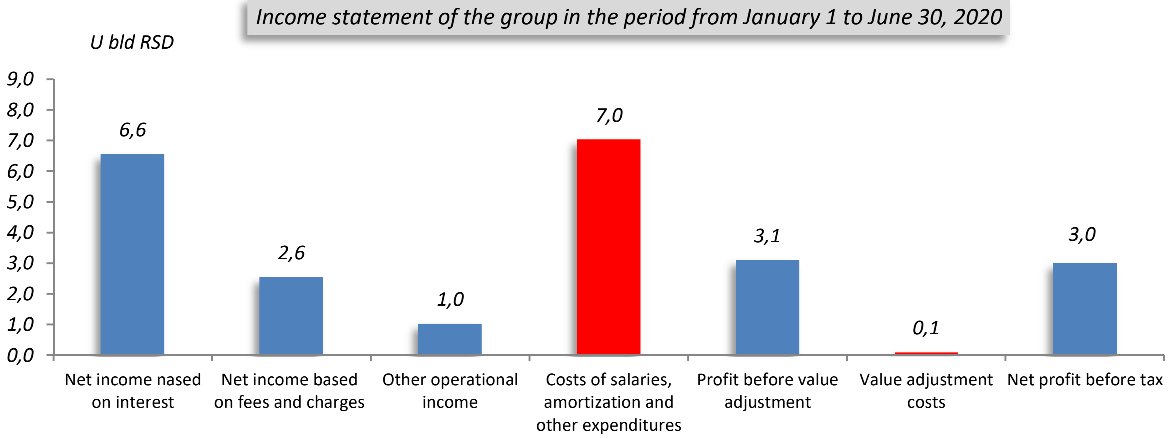
3.5. Consolidated income statement in the period from January 1, to June 30, 2021

Ord. no.	DESCRIPTION	6/30/2021	6/30/2020	INDEXES
1	2	3	4	5=(3:4)*100
	(in thousands of RSD)			
1.1.	Return Interest	7,230,824	7,286,389	99.2
1.2.	Interest expense	(680,163)	(725,656)	93.7
1.	**Net income from interest**	**6,550,661**	**6,560,733**	99.8
2.1.	Income from fees and commissions	3,700,634	3,464,697	106.8
2.2.	Expenses from fees and commissions	(923,074)	(905,367)	102.0
2.	**Net income from fees and commissions**	**2,777,560**	**2,559,330**	108.5
3.	Net profit/loss on changes in the fair value of financial instruments	2,280	36,489	6.2
4.	Net profit/loss on reclassification of financial instruments	-	-	-
5.	Net profit/loss on derecognition of financial instruments measured at fair value	129,764	116,272	111.6
6.	Net profit/loss on hedging	-	-	-
7.	Net income/expense from exchange rate differences and the effects of the contracted currency clause	39,808	817	-
8.	Net income/expense from impairment of financial assets which are not measured at fair value through income statement	(1,022,910)	(104,626)	977.7
9.	Net profit/loss on derecognition of financial instruments which are measured at amortized cost	-	-	-
10.	Net profit/loss on derecognition of investments in associates and joint ventures	-	-	-
11.	Other operating income	123,456	132,556	93.1
	TOTAL NET OPERATING INCOME	**8,600,619**	**9,301,571**	92.5
12.	Costs for salaries, wage compensation and other personal expenses	(2,714,238)	(3,446,840)	78.7
13.	Depreciation costs	(568,220)	(597,084)	95.2
14.	Other income	130,286	745,582	17.5
15.	Other expenses	(4,795,513)	(2,996,201)	160.1
	PROFIT/LOSS (-) BEFORE TAX	**652,934**	**3,007,028**	21.7
16.	Income tax	-	(3,723)	-
17.	Profit from deferred taxes	182,952	18,135	1008.8
18.	Loss on deferred taxes	(46,177)	(162,091)	28.5
19.	**PROFIT/LOSS (-) AFTER TAX**	**789,709**	**2,859,349**	27.6
	Profit belonging to the parent entity	789,708	2,859,349	27.6
	Profit belonging to owners without controlling rights	1	-	-
	Loss belonging to the parent entity	-	-	-
	Loss belonging to owners without controlling rights	-	-	-
	Earnings per share	-	-	-
	Basic earnings per share (in dinars with 0/100)	-	164	-
	Reduced (diluted) earnings per share (in dinars with 0/100)	-	164	-

Income statement of the Group in the period from Janauary 1 to June 6, 2021



Income statement of the group in the period from January 1 to June 30, 2020



During the first six months of 2021, the Group achieved a profit before tax in the amount of RSD 652.9 million, which is by RSD 2,354.1 million or 78.3% less than the profit realized in the same period last year.

Consolidated interest income of the Group for the first six months of this year amounted to RSD 7,230.8 million and compared to the same period last year, decreased by RSD 55.6 million. In the same period, interest expenses in the amount of RSD 680.2 million were recorded and reduced by RSD 45.5 million. This resulted in a decrease in the net interest income of the Group in the amount of RSD 10.1 million i.e. by 0.2%.

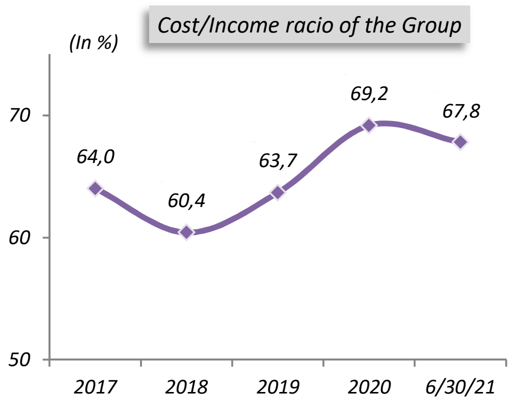
Consolidated revenues based on fees and commissions in the first half of 2021 amount to RSD 3,700.6 million and in relation to revenues generated in the same period last year, they are higher by RSD 235.9 million. Expenses from fees and commissions amount to RSD 923.1 million and in relation to expenses realized in the same period of the previous year, they are higher by RSD 17.7 million or 2.0%. As a result of the stated net income from fees and commissions of the Group, they amount to RSD 2,777.6 million dinars and are RSD 218.2 million higher than those realized in the first six months of the previous year.

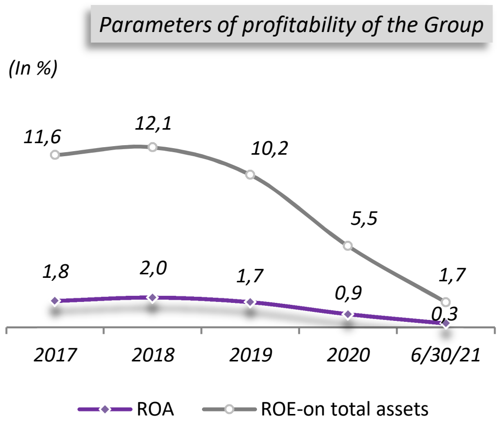
During the first half of 2021, a net expense was realized on the basis of impairment of financial assets that are not measured at fair value through the income statement in the amount of RSD 1,022.9 million, while in the same period last year a net expense was realized in the amount of RSD 104, 6 million, which represents an increase of the same position by RSD 918.3 million.

During the first six months of 2021, the Group recorded a net gain on derecognition of financial instruments measured at fair value in the amount of RSD 129.8 million, which is RSD 13.5 million higher than in the same period last year.

Costs of salaries, wage compensation, depreciation costs, and other expenses in the period from January 1. to June 30, 2021, have amounted to RSD 8,078.0 million and by 14.7% or RSD 1,037.8 million are higher compared to the same period last year.

The position of other revenues of the Group recorded a decrease in the amount of RSD 615.3 million or 82.5% compared to the same period in 2020.





3.6. Consolidated income statement in the period from January 1 to June 30, 2021 – members of the banking Group

Ord. no.	DESCRIPTION	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	(in thousands of RSD)					
1.1.	Interest return	6,486,649	399,077	344,850	248	7,230,824
1.2.	Interest expense	(515,191)	(106,999)	(57,973)	-	(680,163)
1.	**Net income from interest**	**5,971,458**	**292,078**	**286,877**	**248**	**6,550,661**
2.1.	Income from fees and commissions	3,438,032	141,751	108,134	12,717	3,700,634
2.2.	Expenses from fees and commissions	(856,582)	(35,906)	(30,456)	(130)	(923,074)
2.	**Net income from fees and commissions**	**2,581,450**	**105,845**	**77,678**	**12,587**	**2,777,560**
3.	Net profit/loss on changes in the fair value of financial instruments[26]	1,364	-	-	916	2,280
4.	Net profit/loss on reclassification of financial instruments	-	-	-	-	-
5.	Net profit/loss on derecognition of financial instruments measured at fair value	129,754	-	-	10	129,764
6.	Net profit/loss on hedging	-	-	-	-	-
7.	Net income/expense from exchange rate differences and the effects of the contracted FCC[27]	54,419	725	(15,330)	(6)	39,808
8.	Net income/expense from impairment of financial assets which are not measured at fair value in IS	(854,970)	(92)	(167,848)	-	(1,022,910)
9.	Net profit/loss on derecognition of financial instruments which are measured at amortized cost	-	-	-	-	-
10.	Net profit/loss on derecognition of investments in associates and joint ventures	-	-	-	-	-
11.	Other operating income	114,869	5,197	3,390	-	123,456
	TOTAL NET OPERATING INCOME	**7,998,344**	**403,753**	**184,767**	**13,755**	**8,600,619**
12.	Costs for salaries, wage compensation and other personal expenses	(2,372,498)	(168,442)	(165,585)	(7,713)	(2,714,238)
13.	Depreciation costs	(467,552)	(56,469)	(44,168)	(31)	(568,220)
14.	Other income	107,775	19,985	2,520	6	130,286
15.	Other expenses	(4,472,087)	(147,854)	(171,984)	(3,588)	(4,795,513)
	PROFIT/LOSS (-) BEFORE TAX	**793,982**	**50,973**	**(194,450)**	**2,429**	**652,934**
16.	Income tax	-	-	-	-	-
17.	Profit from deferred taxes	182,952	-	-	-	182,952
18.	Loss on deferred taxes	(46,177)	-	-	-	(46,177)
19.	**PROFIT/LOSS (-) AFTER TAX**	**930,757**	**50,973**	**(194,450)**	**2,429**	**789,709**
	Profit belonging to the parent entity					
	Profit belonging to owners without controlling rights					
	Loss belonging to the parent entity					
	Loss belonging to owners without controlling rights					
	Earnings per share					
	Basic earnings per share (in dinars with 0/100)					
	Reduced (diluted) earnings per share (in dinars with 0/100)					

26 Financial institution – financial instruments
27 FCC – foreign currency clause

4. INVESTMENTS IN ENVIRONMENTAL PROTECTION

The Group respects the highest international standards and values in the creation of financial products and services, develops and implements activities in the field of environmental protection and protection of human and labor rights. Standards for identifying, monitoring, and managing environmental and social risks in the process of approving and monitoring placements are defined. These standards are adequately applied at the level of the Group members, at the sub-consolidated level through the incorporation of acts, and at the level of each member in compliance with local regulations and internal acts of the Group members harmonized with the Bank's acts. The Group also develops activities in the field of environmental protection and protection of human and labor rights, applying the best practices of sustainable financing.

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

Through the categorization of placements depending on the level of the environmental and social risks, the Group assesses the percentage of activities that may have harmful consequences for the environment. Also, extraordinary events with clients where such events may have a negative impact on the environment, health or safety, or the community as a whole, are continuously monitored, and the Group regularly informs the management organs of each individual member as well as the Banking Group.

In order to protect the environment and minimize the possibility of occurrence of events that may have a detrimental impact on the environment, health or safety, or the community as a whole, the Group applies a list of operations, projects, or activities excluded from funding or operates within the defined limits in accordance with certain activities, thus meeting the standards of good international practice in this area.

Risk levels are regularly reported in terms of environmental and social impact.

5. SIGNIFICANT EVENTS AT THE END OF THE BUSINESS YEAR

After the end of 2020, and during the first two quarters of 2021, among the most important business events, we single out an extraordinary session of the Shareholders Assembly of the Parent Bank which was held on January 28, 2021.
At the extraordinary Shareholders Assembly of the Parent Bank on January 28, 2021, the following decisions were made:

1. Decision on amendments to the Articles of Association of Komercijalna banka AD Beograd
2. Decision on dismissal of the President of the Assembly of Komercijalna banka AD Beograd
3. Approval of the Shareholders Assembly of the Bank to increase the ownership share in Komercijalna banka AD Banja Luka to 100%
4. Decision on determining the remuneration of the members of the Board of Directors of the Bank and other boards of the Bank.

On April 28, 2021, the regular session of the Shareholders Assembly of the Parent Bank was held. The following decisions were made at the regular session of the Shareholders Assembly of the Parent Bank:

1. Decision on adoption of the Annual Business Report and regular financial reports of the Bank for 2020 with the opinion of the external auditor
2. Decision on the adoption of the Annual Business Report of the Group and the consolidated financial statements of the Group for 2020 with the opinion of the external auditor
3. Decision on the distribution of profit from 2020 as well as retained earnings from previous years
4. Decision on repealing the Bank's Dividend Policy
5. Decision on adoption of the Rules of Procedure of the Assembly
6. Decision on dismissal of a member of the Board of Directors - Guy Richard Steel Stevens
7. Decision on the appointment of a member of the Board of Directors - Veljko Kuštrov.

A new extraordinary session of the Assembly of Shareholders of the Parent Bank was held on August 16, 2021, on which there was adopted the Decision on the appointment of the external auditor of the Bank for 2021.

The Parent Bank, as well as other members of the KB Group, in accordance with legal regulations and recommendations of public health institutions, continues to take all necessary measures to ensure that business activities in unchanged conditions are carried out unhindered and whereby the Group's employees and clients are fully protected.

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

6. FUTURE DEVELOPMENT PLAN OF THE GROUP

Business strategies and plans for the future period shall be defined and adopted at the level of individual members of the Group [28].

In the next period, business operations of the subsidiary banks – members of the Group and the Parent Bank will be, in general, oriented first of all towards maintenance and, also, growth of the market share, with an acceptable level of operational risk and, principally, credit risk. The business operations of the Group in the next period will be limited and determined by newly created circumstances of the existing COVID-19 pandemics, present in the territory of Serbia and surrounding regions since March 2020 and continuing also in 2021.

As of 31.12.2020, Komercijalna banka a.d. Beograd is a part of the NLB Group. For the first year of its operations within the NLB Group, the Bank has also prepared the Budget for 2021, based on the revised Strategy and business plan for the period 2020-2022, and taking into account such changed circumstances. The Budget of the Bank for 2021 includes key business segments and sets goals for the current business year. In accordance with the methodology of the NLB Group, the Bank will prepare during 2021 the Strategy and business plan for the next five-year period. The said document will set key development directions for the next period at the level of the Bank and specific business segments and/or business lines.

The basic development directions of the Parent Bank **Komercijalna banka a.d. Beograd** in 2021 are:

- Retail loan growth (housing loans, non-housing loans, agriculture loans),
- Increase in, and maintenance of, the existing base of active clients (increasing the level of customer satisfaction, better utilisation of capacities of the Contact Centre and Digital Branch Office, improvement of “anti-attrition“ policy with the aim to keep top quality clients, improvement of the use of Analytical CRM tool SAS Real Time Decision Manager on digital channels, and implementation of their use in branch offices, a number of major marketing campaigns at the NLB Group level),
- More significant portfolio growth in the segment of SME clients as compared to Large Corporate and State clients,
- More significant loan granting under the Guarantee Scheme of the RS Government in the Q2, in the SME segment,
- Modification of the process of loan granting to the clients of acceptable rating, with respect to placements up to EUR 1,000,000,
- Growth in the share of income generated from fees and commissions as compared to the interest income (the Bank will be more focused on the income from frees and commissions, taking into account the trend of interest rate decrease, and application of digitalisation and new products aimed to attract new clients),
- More significant growth in the amount of placements regarding guarantees and letters of credit, with effects on the income resulting from the respective fees,
- Activation of the product of purchase of accounts receivable (factoring),
- More extensive project financing.

The result planned for 2021 is influenced by activities on the integration of Komercijalna Banka with NLB Banka Beograd. In this context are also planned:

- one-off costs in the part of human resources,
- additional (one-off) loan portfolio provisions, so that the “cost of risk“, upon integration, would be in line with the strategy of the NLB Group,
- integration costs.

[28] Within this section of the report are set out parts taken from individual Strategies and business plans of the Group members

KOMERCIJALNA BANKA
Meni najbliža

A growth of the assets of Komercijalna Banka is also planned, as well as alignment of the asset structure in accordance with requirements of the NLB Group.

As strategic goals for the future period of **Komercijalna banka a.d. Banja Luka** are defined:

- Maintenance of the stable financial institution with a minor growth in the volume of banking activities in the planning period, by 2023. The volume of business for the year 2021 shows a downward banking activity trend, however, with maintaining of the most important parameters showing no indication of impaired stability. The said decrease is relating to the part of exposure to legal entities, resulting from the expected integration with the NLB bank in 2021, and limited exposure.
- Early risk identification and control, and continued implementation of the policy of placement granting, where the stress will be placed on the stability and quality of loan portfolio;
- Client structure improvement (an enhanced focus on the segment of medium-, small- and micro-sized business entities); without any additional exposure to the state, municipalities and large-sized enterprises resulting from the expected integration and limitation of exposure in this segment;
- Investment in securities will be determined by the current situation of liquid assets, access to alternative interest-bearing assets, adequacy of the rate of return on securities and regulatory restrictions, whereas the sale of securities will be determined by the need for liquid assets and possible access to more profitable items of interest-bearing assets;
- Stable share of income from fees and commissions (a bigger focus on the growth of income from fees and commissions so as to response to challenges of the environment, low and decreasing interest rates);
- Better control over operating expenses (a better financial discipline and control over operating expenses, reduction of the CIR ratio for the duration of the business plan);
- Preserving a good capital position (the goal is to increase the total capital by the end of the planning period, to increase the capital through the profit growth).

On 30.12.2020, Nova Ljubljanska banka d.d. Ljubljana (herinafter: NLB d.d. Ljubljana) paid the purchase price under the Agreement on the Purchase and Sale of Shares in Komercijalna banka AD Beograd, concluded on 26.02.2020 with the Government of the Republic of Serbia, whereby it has become its majority shareholder with 83.23% shares. As Komercijalna banka AD Beograd is the Parent Bank of Komercijalna banka AD Banja Luka (hereinafter: the Bank), this change affected the ownership structure of the Bank and status of entities having a special relationship with the Bank.

On 24.12.2020, Nova Ljubljanska banka d.d. Ljubljana, through the purchase of 1 (one) share in the Bank at the Stock Exchange of Banja Luka from the shareholder Agencija za osiguranje i finansiranje izvoza Republike Srbije AD Užice (Serbian Export Credit and Insurance Agency JSC Užice) has become the shareholder of Komercijalna banka AD Banja Luka.

Basic strategic goals of business of **Komercijalna banka a.d. Podgorica** for the future planning period are as follows:

- Directing attention and activities predominantly to natural persons who are highly solvent, with regular monthly salaries, employed with stable institutions, public institutions, business entities;
- Expanding cooperation with clients – natural persons, through their purchase of as much products/services as possible, as offered by the Bank;
- Development and improvement of the image of the Bank, and continuous communication with clients aimed to increase the number of minor deposits (sight and term deposits) of natural persons. and holding all of these deposits with the Bank;
- In respect of natural persons – enhancing the activity in the “cross selling“ segment of the Bank in order to strengthen relationships with the clients, increase the number of products and income per client;
- Expanding and completing the activities on digitalization of business and application of new banking technologies so as to complete the offer to the clients and facilitate the use of services, on the one hand, and reduce costs, on the other;
- In respect of retail loans, the attention will be principally focused on cash, rather than on housing loans, for the reason of more favourable price conditions;
- Maintaining the level and quality of the loan portfolio of legal entities, along with protection of the customer base;

- Increasing the number of clients in the segment of micro- and small-sized enterprises, which are not significantly affected by the crises caused by the COVID-19 pandemics;
- Strengthening the customer base with deposits with the Bank;
- Maintaining the continuity in guarantee-related banking operations.

The business goals of UCITS **KOMBANK INVEST a.d. Beograd** for the future planning period are:

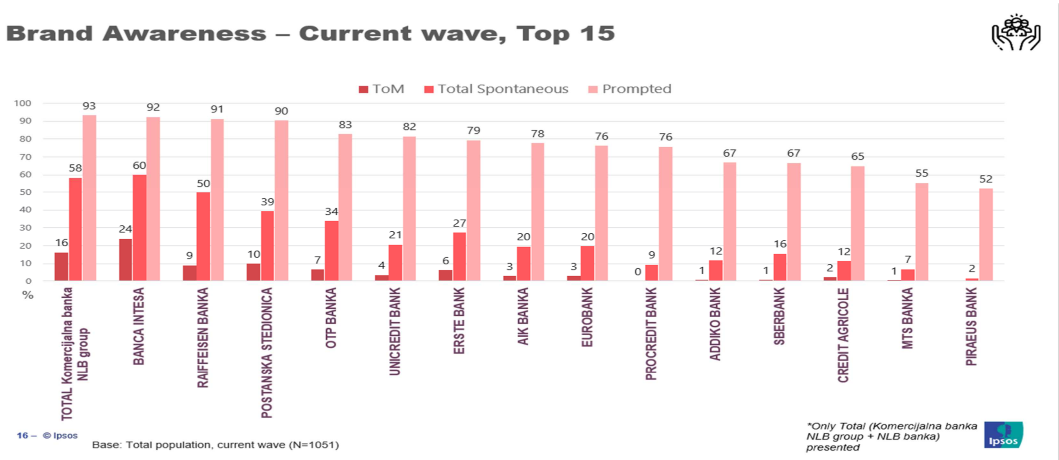
- balance sheet asset increase;
- investment of the company assets in the most profitable financial instruments;
- significant growth in income from fund management, stable financial income along with control of the amount of operating expenses, which will result in a significant increase in the annual net profit;
- respective business result growth and increase in the volume of banking business using advantages resulting from the legal regulations – direct payments in EUR currency, free operations with investment units, and first ranking pledge on investment units;
- adjustment to the newly occurred economic crisis due to the COVID-19 pandemics.

7. RESEARCH AND DEVELOPMENT

The Group has been monitoring on a continuous basis the activities on the market of banking products, with respect to which the Group members have been using independently available personnel, engaging also, in accordance with their needs, specialized, independent public opinion research agencies.

There are a number of indicators evidencing that Komercijalna banka Beograd, as a part of the NLB Group, has been constantly among the leaders on the banking market, and the research conducted periodically confirm the same.
The research agency IPSOS conducts research relating to the image and reputation of banks on our market and this year was, for the first time, made a combined research on both brands together – Komercijalna banka and NLB Banka. During 2020, in the section “Brand Recognition“, Komercijalna banka was ranked second as perceived by the survey respondents relating to the bank brand name. In the first half of 2021, the high result from the previous year was re-confirmed.
Komercijalna banka was ranked high also in the survey section “Advertisement Recognition“, by all the three criteria in 2020, likewise in the first half of 2021.
The major capital of Komercijalna banka Beograd, member of the NLB Group, are its clients. The surveys show that there is a high customer satisfaction level.

Bank brand recognition in Serbia (Ipsos, 2021)



8. BUY –BACK OF TREASURY STOCK

The Group members have not acquired treasury shares in the current business year and do not intend to acquire treasury shares in the forthcoming period.

9. BUSINESS OPERATIONS OF AFFILIATES BEFORE CONSOLIDATION

The subsidiary banks (Komercijalna banka a.d. Banja Luka and Komercijalna banka a.d. Podgorica) keep business books and prepare financial statements in accordance with accounting regulations of Bosnia and Herzegovina (Republic of Srpska) and/or Republic of Montenegro. KOMBANK INVEST a.d. Beograd prepared financial statements in accordance with accounting regulations of the Republic of Serbia.

For the purpose of preparation of consolidated financial statements, individual financial statements of the subsidiary banks and the Company KOMBANK INVEST have been adjusted to the presentation of financial statements, based on:

- Accounting regulations of the Republic of Serbia,
- Internal bylaws of the Parent Bank - Komercijalna banka a.d. Beograd, and
- Relevant IASs and IFRSs.

Reclassified individual balance sheets of the Group members prior to the consolidation as at 30.06.2021

No.	DESCRIIPTION	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST
	(in thousand RSD)				
1.	Cash and assets held with the central bank	76,805,654	9,731,039	2,538,770	152
2.	Receivables under derivatives	-	-	-	-
3.	Securities	145,092,815	3,212,047	1,306,809	154,927
4.	Loans and receivables from banks and other financial organisations	43,366,516	2,015,560	1,093,738	16,080
5.	Loans and receivables from clients	195,450,279	16,893,737	12,156,342	-
6.	Investments in subsidiaries	5,480,888	-	-	-
7.	Intangible assets	397,853	33,474	23,336	-
8.	Property, plant and equipment	5,821,893	316,947	320,023	112
9.	Investment property	1,950,289	198,584	73,083	
10.	Current tax assets	18,911	8,550	-	77
11.	Deferred tax assets	-	-	-	2.484
12.	Fixed assets held for sale	130,426	144,308	130,845	-
13.	Other assets	8,085,020	76,162	465,612	2,232
14	**TOTAL ASSETS (from 1 through 13)**	**482,600,544**	**32,630,406**	**18,108,558**	**176,064**
15.	Deposits and other financial liabilities to banks, other financial organisations and the central bank	2,457,297	4,150,289	271,592	-
16.	Deposits and other financial liabilities to other clients	392,058,966	23,823,236	15,176,015	-
17.	Provisions	3,340,103	43,196	124,478	15,459
18.	Current tax liabilities	-	-	-	-
19.	Deferred tax liabilities	59,910	17,666	8,403	-
20.	Other liabilities	7,345,877	370,461	168,653	2,010
21.	**TOTAL LIABILITIES (from 15 through 20)**	**405,262,153**	**28,404,849**	**15,749,141**	**17,468**
22.	Total equity	77,338,391	4,225,557	2,359,418	158,596
23.	**TOTAL EQUITY AND LIABILITIES (21+22)**	**482,600,544**	**32,630,406**	**18,108,558**	**176,064**

NOTE: For the needs of consolidating, in individual (statutory) financial statements of the Group members is carried out reclassification of items, which affect adjustment of the balance sheet sum and results in the income statement disclosed in the statutory reports. The adjusted (reclassified) financial statements disclose initial balance reports and items, which are further the subject-matter of consolidation.

Reclassified individual income statements of the Group members prior to consolidated for the period between 01.01. and 30.06.2021

No.	DESCRIPTION	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST
1	2	3	4	5	6
	(in thousand RSD)				
1.1.	Interest income	6,493,862	399,077	345,129	248
1.2.	Interest expenses	(515,470)	(109,521)	(62,664)	-
1.	**Net interest income**	**5,978,392**	**289,556**	**282,465**	**248**
2.1.	Income from fees and commissions	3,446,860	141,957	108,137	12,717
2.2.	Expenses on fees and commissions	(856,791)	(37,584)	(36,313)	(1,423)
2.	**Net income from fees and commissions**	**2,590,069**	**104,373**	**71,824**	**11,294**
3.	Net profit/loss from change in fair value of FI [29]	1,364	-	-	916
4.	Net profit/loss from reclassification of FI	-	-	-	-
5.	Net profit/loss from derecognition of FI measured at fair value	129,754	-	-	10
6.	Net profit/loss from hedging	-	-	-	-
7.	Net income from/expense on exchange rate and agreed FCC [30]	31,237	274	6,895	(6)
8.	Net income from/expense on reduction in impairment of financial assets not measured at fair value in the income statement	(854,970)	(92)	(167,848)	-
9.	Net profit from/loss on derecognition of FIs measured at amortised cost	-	-	-	-
10.	Net profit from/loss on derecognition of investments in associated companies and joint ventures	-	-	-	-
11.	Other operating income	114,995	5,197	3,390	-
	TOTAL NET OPERATING INCOME	**7,990,841**	**399,307**	**196,727**	**12,462**
12.	Salaries, wages and other personal indemnities	(2,372,498)	(168,442)	(165,585)	(7,713)
13.	Depreciation costs	(467,552)	(56,469)	(44,168)	(31)
14.	Other income	107,774	19,985	2,520	6
15.	Other expenses	(4,472,087)	(147,854)	(172,110)	(3,588)
	PROFIT/LOSS(-) BEFORE TAX	**786,478**	**46,527**	**(182,616)**	**1,136**
16.	Tax on profit	-	-	-	-
17.	Profit from deferred tax	182,952	-	-	-
18.	Loss from deferred tax	(46,177)	-	-	-
19.	**PROFIT/LOSS(-) AFTER TAX**	**923,253**	**46,527**	**(182,616)**	**1,136**

[29] FI – financial instruments
[30] FCC – foreign currency clause

10. FINANCIAL INSTRUMENTS RELEVANT TO ASSESSMENT OF THE FINANCIAL STANDING OF THE GROUP

To adequately assess the financial standing of the Group as at 30.06.2021, of key importance are the following financial instruments and/or balance sheet items: loans and receivables from clients, securities, cash and assets held with the central bank, deposits and liabilities to other clients and share capital.

As at 30.06.2021, the item *loans and receivables from clients* accounts for 42.6% of the total consolidated assets of the Group and is increased by RSD 5,066.7 million as compared to the beginning of the year.

The item *securities* accounts for 28.4% of the total consolidated assets of the Group and is reduced by RSD 8,672.1 million as compared to the beginning of the year. The said investment in securities mainly consists of investment made by Komercijalna banka a.d. Beograd in securities of the Republic of Serbia in the amount of RSD 145,092.8 million, which accounts for 96.9% of the total amount at the Group level.

As at 30.06.2021, *cash and assets held with the central bank* account for 16.9% of the consolidated assets (as at 31.12.2020, the said item in the consolidated assets accounted for 17.4%) and are increased by RSD 2,175.2 million as compared to the beginning of the year.

On the other hand, in the consolidated liabilities of the Group, *deposits and other liabilities to other clients* account for 81.8% of the consolidated liabilities (as at 31.12.2020, they were 81.2%) and are increased by RSD 24,866.2 million. *Deposits* were the main source of funding also during the first half of 2021 not only of the subsidiary banks, but also of the Parent Bank.

The item *total equity* of the Group as at 30.06.2021 makes 14.9% of the consolidated liabilities (as at 31.12.2020, it was 15.5%) and is increased by RSD 1,038.9 million.

The Group members are well capitalised and the capital adequacy ratio of the Group as at 30.06.2021 is 27.22% which is significantly above the prescribed limit.

11. RISK MANAGEMENT

Risk management is a key element in the management of business operations, taking into account that exposure to risks arises out of all business activities, as an integral part of the banking business, which is managed through identification, measurement, assessment, monitoring, control and mitigation and/or establishing risk limits, as well as reporting in accordance with the strategies and policies.

The Group has set up a comprehensive and reliable risk management system, which includes: strategies, policies and procedures for risk managements, methodologies for individual risk management, adequate organisational structure, effective and efficient process of management of all risks the Group is, or may be exposed to in its business, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment. Also, in the risk management system is integrated the Recovery Plan of the Group, as a mechanism for early identification of situations involving serous financial disturbance in which the Group can take measures, and/or apply defined recovery options for the purpose of prevention of entering in an early intervention phase in which the regulator plays an active role, or improvement of already worsened financial position.

With its Risk Management Strategy and the Capital Management Strategy and Plan, the Group set the following goals with the risk management system: minimising adverse effects on the financial result and capital, observing, at the same time, defined frameworks of acceptable risk level, maintenance of the required capital adequacy level, development of activities of the Group in accordance with business strategies of particular members and market opportunities and development, with the aim of creating competitive advantages, diversification of risks the Group is exposed to, maintenance of the NPLs share in the total loans up to the level acceptable to the Group, maintenance of the liquid asset coverage ratio above the level prescribed by the regulations and internal limits.

The Group has been permanently monitoring all announcements and changes in the regulatory framework, analysing the impacts on the risk level and taking measures for timely compliance of its business operations with new regulations and, during 2021, in particular, in the part of the legislation relating to the protection of stability of the financial system, as well as support to the economy to mitigate the consequences of COVID-19 pandemics by the regulators on the markets on which the Banking Group has been doing business. Through a clearly defined process of implementation of new and significantly modified products, services and activities relating to the processes and systems, the Group analyses their impacts on the future exposure to risks with the aim of optimisation of its income and costs for the risk assessed, as well as minimising all potentially possible adverse effects on the financial result of the Group.

A detailed overview of risk management goals and policies of the Group is shown in the Notes to the Consolidated Financial Statements.

Policy of protection from exposure to credit risk

For the purpose of protection from exposure to credit risk, the Group has been applying the techniques for credit risk mitigation through acquiring also acceptable security instruments (collaterals), as well as secondary sources of collection of placements. The Group has been striving to deal with the clients of good creditworthiness, assessing this at the moment of filing application and through regular monitoring of debtors, placements and collaterals, in order to timely take appropriate steps in the procedure of collection.

The types of security of accounts receivable will depend on the assessment of credit risk of a debtor, and will be established on a case-by-case basis, and obtained upon conclusion of the agreement and prior to realization of placement.

The Group has regulated, through its internal bylaws, the valuation of credit protection instruments and management of such instruments.

The Group pays special attention to marketability and adequate assessment of collaterals and, in this regard, whenever it is necessary to assess the value of collateral, engages certified assessors in order to reduce any potential risk from unrealistic assessment to the minimum, while real property, goods equipment and other movable property being pledged must be insured with an insurance company to the satisfaction of the Group, and insurance policies provided to the benefit of the specific member of the Group.

For the purpose of protection of changes in the collateral market value, the assessed value is adjusted for the defined percentage of reduction, subject to the type of collateral and location of the real property concerned, which are reviewed and revised on a regular basis.

The Group will pay special attention to monitoring of collaterals and undertake activities to ensure new assessments of value thereof, and also to obtain additional collaterals, first of all in case of clients with identified issued in business, and also those whose coverage to exposure to collaterals is reduced due to decrease in value of the collaterals obtained.

To adequately manage risks, the Group will conduct activities of credit risk analysis when granting loans/making investment (placements) and establishing the system of monitoring, prevention and management of risk-associated placements, including also adequate identification of potentially risk-associated clients (Watch List), mitigate credit risk with the clients of the said status, and also through undertaking measures and actions aimed to protect the interests of the Group and prevent adverse effects on its financial result and capital. The Watch List process has been significantly improved in the first half of 2021, in line with the process of harmonisation with the Banking Group NLB dd, Ljubljana. Within the Watch List process are defined the WL1 (level 1), WL2 and ICL (level 2) categories.

During 2021, measures for improvement of the system for risk management have been continued, observing the process of harmonisation with the new Banking Group NLB dd Ljubljana, external auditor’s requirements, and impacts of the COVID-19 pandemics. The Risk Management Strategy was revised, as well as procedures and methodologies, for the purpose of alignment with requirements of the NLB Group.

In the first half of 2021, in the circumstances caused by the COVID-19 pandemics with a mild improvement of the business ambient, the quality of the loan portfolio has been maintained further through regular analyses of impacts of the pandemics on the decrease of business activities and reduction of financial potential of clients from the most affected activities, and resolving of issues of the clients already identified as problematic, and activities on the reduction of uncollected placements have been also conducted. In accordance with the Decision of the National Bank of Serbia, due to the impacts of the COVID-19 pandemics, the most affected clients were granted the moratorium 3 (extension of the loan term, including the 6-month grace period), and in accordance with the Decision of the Government of the Republic of Serbia, the loans for liquidity and refinancing under the Guarantee Scheme were granted. The accounting write-off was made in accordance with the local regulations.

In the first half of 2021, the Decision of the National Bank of Serbia was applied prescribing the suspension in repayment of borrowers' liabilities (moratorium 3). The 6-month grace period was introduced for the clients who met the conditions set out in the Decision of the NBS (consequences of impacts of COVID-19) and who required the moratorium 3 in the circumstances of potential risks caused by the extraordinary health situation in the country. Also, the Government of the Republic of Serbia rendered a decree on the extension of the guarantee scheme 1 and a new guarantee scheme 2, in order to support financing of corporate clients. The Group applies the IFRS 9 standard and, pursuant to it, makes calculations of impairment of the balance sheet assets and probable losses on off-balance sheet items. The concept of "expected losses" applies through inclusion of influence of expected trends in macro-economic factors on the future movement of probability of occurrence of a default status based on statistically proved interdependences, for several scenarios. The portfolio is differentiated into three levels following the status of clients (level 1 – PL clients, without identified credit risk worsening, level 2 – PL clients with identified credit risk worsening – measured using the set of defined criteria, level 3 – NPL clients). Also, in accordance with the IFRS 9 standard, the Group calculates impairment also with respect to exposures to countries and central banks of the member of the Banking Group, and permanent investment (other than permanent investment in subsidiaries) are measured at fair value. The level of impairment with respect to credit risk for the NPL and PL portfolio, as well as of impairment of state securities in the first half of 2021, has increased significantly, as a result of the process of harmonisation with the parent bank NLB dd Ljubljana. The increase in impairment of NPL placements was most affected by the increase in the "hair cut" for collaterals used in the impairment process, as well as increase of the threshold of material significance with respect to NPL placements of natural persons, farmers and entrepreneurs. The increase in impairment with PL placements was affected by application of new PDs, changes to the methodology in the part relating to the application of state guarantees (instead of 100% deductible item, PD is used for the State), changes in the application of LGD and changes to the methodology in the part relating to the effects of changes in the NLB rating on the stage 2. The growth in impairment with respect to the securities of the Republic of Serbia results from the change in the methodology in the part relating to the application of PD to States.

On a sub-consolidated basis, the Group is in its operations exposed, in particular, to the following types of risk:

- Credit and other risks associated thereto.
- Liquidity risk.
- Market risk.
- Interest risk in the banking book.
- Operational risk.
- Investment risk.
- Exposure risk.
- Country risk, as well as any other risk, which may occur in the normal course of business of the Group.

Exposure to credit risk

Credit risk is a possibility of occurrence of adverse effects on the financial result and capital of the Group due to a failure of debtors to fulfil their obligations towards the Group Members. Credit risk is conditional upon the creditworthiness of the debtors, timeliness in fulfilment of their obligations towards the Group members, and quality of security instruments.

The acceptable level of exposure of the Group to credit risk is in line with the defined Risk Management Strategy and depends on the Group portfolio structure, based on which it is possible to limit adverse effects on the financial result and capital of the Group, along with minimising capital requirements for credit risk, other party risk, risk of decrease in value of purchased receivables, risk of settlement/delivery based on free deliveries and with the aim of maintaining an acceptable level of capital adequacy. The Banks, members of the Banking Group, manage the credit risk at the level of clients, group of interrelated parties, and entire loan portfolio. Also, they grant placements to clients (legal entities and natural persons) assessed to have creditworthiness, through analysis, i.e. quantitative and/or qualitative measurement and assessment of credit risk and financial standing of debtors. The process of credit risk measurement is based on the measurement of the level of risk of individual placement based on the internal rating system, as well as on the application of legal regulations. By way of monitoring and control of the portfolio, as a whole and by specific segments, the Group makes comparisons to previous periods, identifies movement trends and causes for changes in the credit risk level. It also monitors asset quality indicators (NPL trends, ratio of coverage of NPLs with provisions, and so forth), as well as exposure to regulatory and internally defined limits. The process of monitoring the loan quality enables the Group members to assess potential losses, as a result of risks they are expose to, and take appropriate corrective measures.

Exposure to liquidity risk

Liquidity risk is a possibility of occurrence of adverse effects on the financial result and capital of the Group, due to a failure by the Group members to meet their mature obligations due to withdrawal of the existing source of funding, and also due to impossibility to obtain new source of funding – liquidity risk of funding source, and aggravated conversion of assets into liquid funds due to market disturbances – market liquidity risk. The liquidity risk is reflected in difficulties of the Group in settling liabilities due, in case of insufficient liquidity reserves and impossibility to cover unexpected outflows of other liabilities.

The Parent Bank, as well as the Group members at a sub-consolidated level, shall adhere in their business to the basic liquidity principles, generating a sufficient level of liquid assets to cover liabilities occurred in a short term, and shall observe the solvency principle by forming an optimal structure of own and borrowed sources of funds and forming a sufficient level of liquidity reserves which do not endanger achievement of the planned return on capital.

The liquidity risk is reflected also in the impossibility of the Group to transform certain parts of assets into liquid assets within a short term. The Group shall analyse the risk of source of funds and market liquidity risk. The liquidity issue, form the point of view of sources of funds, is related to the structure of liabilities, and is expressed through potential significant involvement of unstable sources, short-term sources or concentration thereof. The liquidity risk of funding sources is, actually, the risk that the Group will not be able to meet its obligations due to withdrawal of unstable sources of funds, i.e. Impossibility to obtain new sources of funds. On the other hand, the liquidity risk is reflected also through deficit in liquidity reserves and aggravated or impossible obtaining of liquid funds at acceptable market prices. During the first half of 2021, the Group was compliant with regulatory and internally defined limits, and, in the situation of somewhat lower inflows due to the application of the moratorium on loan repayments, in the course of the second quarter, all the indicators of liquidity risk were higher as compared to the limits defined.

The Parent Bank, as well as the Group members, have been actively taking preventive measures in order to minimise liquidity risk.

Exposure to market risks

Market risk is a possibility of occurrence of adverse effects on the financial result and capital of the Group due to changes in market variables and includes currency risk with respect to all business activities performed by it, and price risk of items in the trading book.

The Group is exposed to currency risk demonstrated through a possibility of occurrence of adverse effects on the financial result and capital due to volatility of exchange rates, i.e. change of the value of domestic currency against foreign currencies or changes in the value of gold and other precious metals.
In order to minimise the exposure to currency risk, the Group makes diversification of the currency structure of portfolio and currency structure of liabilities, adjustment of open items by certain currencies observing the principles of term transformation of funds. During the first half of 2021, the Group was compliant with regulatory indicator of currency risk expressed as 20% of regulatory capital.

Exposure to interest rate risk

Interest rate risk is the risk of adverse effects on the Group's financial result and equity of the Group based on positions in the banking book due to adverse changes in interest rates. The Parent Bank, as well as the members of the Group, in a comprehensive manner timely, determine the causes of the current exposure and assess the factors of future exposure to interest rate risk. Exposure to this type of risk depends on the ratio of interest-rate-sensitive assets and liabilities.

Interest rate risk management aims to maintain an acceptable level of exposure to interest rate risk in terms of the impact on the financial result and economic value of capital, by conducting an adequate maturity policy for the period of re-formation of interest rates and matching sources with placements according to the interest rate level and the maturity.

Exposure to operational risks

Operational risk is the risk of possible adverse effects on the financial result and capital of the Group due to failures in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in banks which are members of the Group, as well as unforeseen external events. The operational risk also includes legal risk, which is the risk of adverse effects on the Group's financial results and equity, based on legal or extra-judicial proceedings. Group member banks measure operational risk exposure through event logging, monitoring of key risk indicators, self-assessment, and stress testing of operational risk. The Group takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, application of an adequate and reliable information system, the implementation of which improves business practices and optimizes business processes. In order to minimize the legal risk and its impact on the financial result, the Group continues to improve its business practice in the area of timely provisions based on legal claims submitted against member banks of the Group, in accordance with the assessment of future expected loss on that basis.
The Group also conducted an assessment of exposure to operational risks in the context of the Covid-19 virus pandemic and identified operational risks. In order to mitigate the adverse effects, appropriate risk mitigation measures have been defined for the identified operational risks at the level of the parent Bank.

Investment risk

The Group's investment risk represents the risk of investing in other legal entities and in fixed assets and investment property. In accordance with the regulations, the level of permanent investments is monitored and the Bodies and Boards of the Group are informed about it. In this way, it is ensured that the investment of the Group members in one non-financial sector entity, do not exceed 10% of the Group's capital and that the investments of the Group members in the non-financial sector entities and fixed assets and investment property do not exceed 60% of the Group's capital.

High exposure

The Group's high exposure to one or a group of related parties, including persons related to the Group, is an exposure of at least 10% of the Group's equity. During the first half of 2021, the Parent Bank and member banks of the banking Group complied with regulatory and internally defined exposure limits.

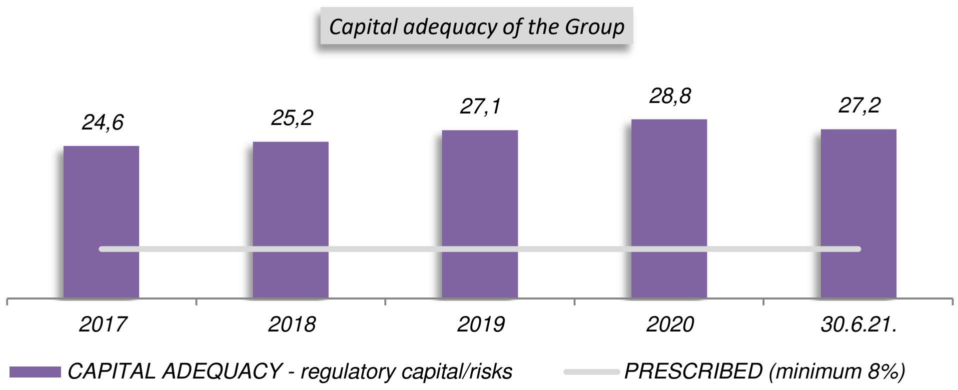
Exposure to country risk

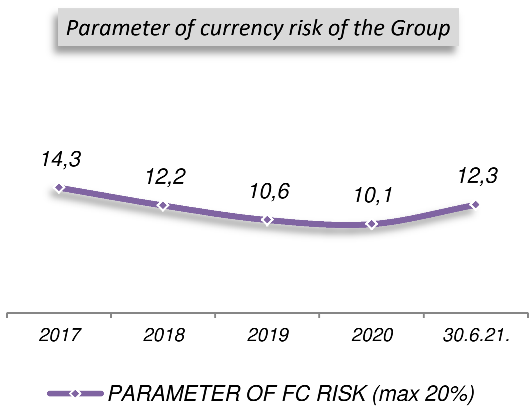
Country risk is the risk related to the country of origin of the persons to which the Group members are exposed, i.e. the risk of adverse effects on the financial result and capital of the Group due to the inability of Group members to collect receivables from debtors because of the political, economic or social circumstances in the country of origin of the debtor. The Group's exposure to country risk is at the acceptable level.

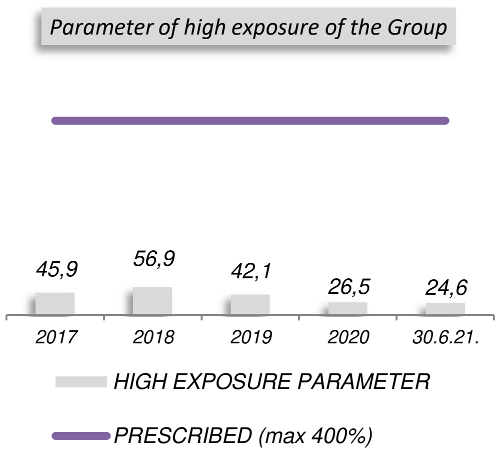
Regulatory requirements for the KB Group

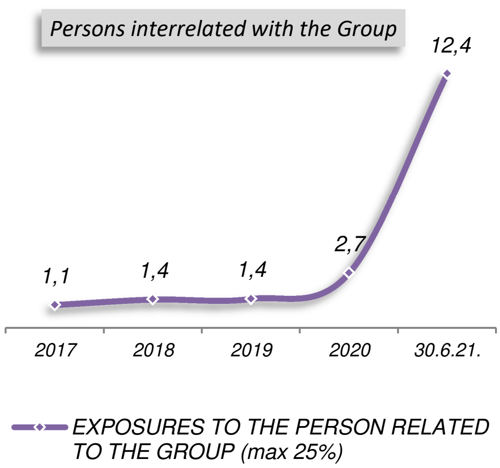
Pursuant to the Law on Banks: „for the banking Group the following is determined on consolidated base:

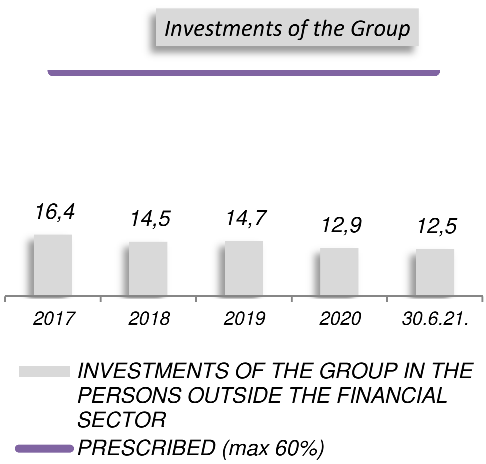
- capital adequacy ratio,
- high exposure,
- investment in other legal entities and in fixed assets and investment real estate,
- open net foreign exchange position,
- liquid assets coverage ratio“.


Capital adequacy of the Group
24,6
25,2
27,1
28,8
27,2
2017
2018
2019
2020
30.6.21.
CAPITAL ADEQUACY - regulatory capital/risks
PRESCRIBED (minimum 8%)


Parameter of currency risk of the Group
14,3
12,2
10,6
10,1
12,3
2017
2018
2019
2020
30.6.21.
PARAMETER OF FC RISK (max 20%)


Parameter of high exposure of the Group
45,9
56,9
42,1
26,5
24,6
2017
2018
2019
2020
30.6.21.
HIGH EXPOSURE PARAMETER
PRESCRIBED (max 400%)


Persons interrelated with the Group
12,4
1,1
1,4
1,4
2,7
2017
2018
2019
2020
30.6.21.
EXPOSURES TO THE PERSON RELATED TO THE GROUP (max 25%)


Investments of the Group
16,4
14,5
14,7
12,9
12,5
2017
2018
2019
2020
30.6.21.
INVESTMENTS OF THE GROUP IN THE PERSONS OUTSIDE THE FINANCIAL SECTOR
PRESCRIBED (max 60%)

12. SOCIALLY RESPONSIBLE BUSINESS OF THE GROUP

KOMERCIJALNA BANKA A.D. BEOGRAD

During the process of integration of Komercijalna banka Beograd with NLB Banka Beograd and the NLB Group, the alignment has started also in the field of socially responsible operations of both banks. Good practices have been further applied and combined into one common goal – improvement of conditions in the community, which for all our employees is not only a place of work, but also home. Komercijalna banka Beograd has joined this year the NLB Bank for the first time in the implementation of the project #Support framework, initiated in 2020 in the peak of pandemics, in all countries in which the NLB Group operates. The aim of this project is, by providing professional marketing support for the preparation of campaigns and giving the advertising space, to assist local businesses to reach new customers and users and thus overcome, as efficiently as possible, adverse effects of coronavirus on business operations. Record-setting 244 applications and 50 small business to which the advertising space was given, worth more than twenty million dinars, justified this activity and the needs of small business for support.

Komercijalna banka Beograd has provided its support also to sustainable development, by joining the traditional Organic Competition of the NLB Bank, held for the tenth time, to award the best ten projects for the production and processing of organic food and food products with 500,000 dinars each.

In addition, Komercijalna banka Beograd has, traditionally, remained with those who need support the most, our prematurely born heroines and heroes through the project Together for Babies and donated with the B92 Fund to the Gynecology and Obstetrics Clinic "Narodni front" in Belgrade 4D ultrasound devices worth approx. 2.7 million dinars.

This year was also not missing the support to artist and art, supported by Komercijalna banka with the donation for holding the traditional art colony of the association Pigmalion, dedicated this time to the topic Future of Life.

Marketing activities of the Bank

At the beginning of the process of integration of the two banks, a campaign titled “Welcoming“ has been initiated which communicates a special offer of both banks and all benefits resulting from the campaign. A special action has been initiated within which both banks will grant to clients housing and cash loans exclusive of processing costs, and the clients who, during the promotional period, open an account either with Komercijalna banka or NLB banka, will not pay cost for account maintenance by September, 30. Furthermore, as a part of the campaign, the clients from Serbia have got an opportunity to withdraw their funds with debit cards, commission free, at almost 1,500 locations on all markets where the NLB Group is present. This campaign will be valid till the expiration of the promotional period in October 2021.

All the benefits of the campaign were first communicated to the employees of Komercijalna banka and NLB Banka though direct e-mailing to the client base. Besides traditional communication channels, television, radio and billboards, the digital communication was intensified on the most visited portals (banners), and also through ads and search on Google. Also, the communication was organised on all social network channels of the bank. No promotions of products, services and other activities of the bank have been made in direct contacts with clients, taking into account the epidemiologic situation and coronavirus pandemics.

KOMERCIJALNA BANKA A.D. BANjA LUKA

The first half of 2021 was marked by the continuation of the coronavirus pandemics which reflected also on the business of Komercijalna banka Banja Luka from the point of view of socially responsible business, meaning that many events, fairs and manifestation to which Bank has been traditionally contributing, have been postponed. During the pandemics, the Bank, in accordance with regulations and recommendations, allowed to its clients reliefs in loan repayment, and lower rates for transactions of domestic payment operations via e-banking and mobile banking.

KOMERCIJALNA BANKA A.D. PODGORICA

The socially responsible business and efforts to assist and support all the projects, contributing to a wide social community, are an inevitable part of activities of Komercijalna banka a.d. Podgorica, member of the NLB Group. In 2021, Komercijalna banka a.d. Podgorica, member of the NLB Group, has continued its socially responsible activities carried out by it on a continuous basis for many years, and supported certain number of sports clubs and individuals who achieved significant results in the fields of sports, science and art, and certain number of citizens who applied for financial assistance and belong to the category of highly socially vulnerable population. In this context, we have applied good practices, and as a socially responsible institution we supported the pioneer work of the wrestling club “Perjanik” of Podgorica, concluded a sponsorship agreement with the Chess Association of Montenegro, whereby the Bank became also the general sponsor of the action “Chess to Schools” initiated by the management of the CAM. The development and support to young people and sports is one of the priority goals of the Bank.
Also, within the program of support to local communities, in 2021 the Bank donated school supplies to pupils of the 1st class of 10 elementary schools in Montenegro. The positive energy, grateful smiles and joy of giving are the attributes of recognizable social responsibility of business of Komercijalna banka a.d. Podgorica, member of the NLB Group.
In 2021, the Bank has continued its activities on fulfilment of the Cooperation Agreement with the Faculty of Economics of Podgorica, with the aim to, through joint activities within this cooperation, improve the knowledge and skills of students so as to prepare them in the best possible way for the labour market. The cooperation encompasses a wide range of activities, such as organisation of professional discussions and forums, visits by representatives of the Bank to the Faculty and vice versa, joint elaboration and preparation of studies/analyses, professional practice for students of the Faculty of Economics with the Bank, and improvement of lecturers, coaches and employees on both sides.

12.1. Corporate governance rules

The corporate governance rules are based on the applicable legislation (Law on Banks, Company Law and Law on Open-Ended Investment Funds Subject to Public Offering). The code of corporate governance establishes the principles of corporate practice to be adhered to, in business and conduct, by corporate governance subjects. The goal of the Corporate Governance Code is to introduce good business practices and set high standards in the field of corporate governance, which should ensure a balance of the subjects of corporate governance of the company, consistency of the control system, strengthening of trust among shareholders, investor and other interested parties, all the foregoing with the aim to ensure long-term and sustainable development of the Bank/Group.

The corporate governance rules of Komercijalna banka a.d. Beograd are based on the relevant legislation (predominantly, Law on Banks and Company Law). The competences and power of all bodies of the Bank (AGM, Management Board, Executive Board, Audit Committee, ALCO, Credit Committee), are based on the relevant legislation and defined in internal bylaws (Memorandum of Association, Articles of Association of the Bank, rulebook on the work of bodies of the Bank, and other internal documents). In its business operations, in accordance with the Decision of the Executive Board of the Bank no. 8373, dated 09.04.2013, the Code of Corporate Governance of the Serbian Chamber of Commerce and Industry (Off. Gazette of the RS, no. 99/2012) applies, adopted by the Assembly of the Serbian Chamber of Commerce and Industry. The corporate governance rules are implemented through internal bylaws of the Bank and there are no deviations in the application thereof.

The Corporate Governance Code establishes the principles of corporate practice adhered to by the subjects of corporate governance of the Bank in their business and behaviour. The purpose of the Code is to implement goods business practices in the field of corporate governance, equal influence of all interested parties, existing and potential shareholders, employees, bodies of the Bank, State, etc. The ultimate goal is to ensure long-term and sustainable development of the Bank. The text of the Corporate Governance Code is published on the website of the Bank (http://en.kombank.com/corporate-governance).

Komercijalna banka a.d. Banja Luka in its business operations applies the Corporate Governance Standards adopted by the Securities Commission of the Republic of Srpska in accordance with Article 309 of the Company Law (Official Gazette of the Republic of Srpska, nos. 127/08, 58/09, 100/11, 67/13, 100/17 and 82/19), and Article 260 of the Law on the Securities Market (Official Gazette of Republic of Srpska, nos. 92/06, 34/09, 30/12, 59/13, 108/13 and 4/17).
In accordance with the Company Law (Official Gazette of ME nos. 17/2007, 80/2008, 36/2011, 65/2020), Komercijalna banka a.d. Podgorica, as of the date of its registration as a joint-stock company, has acquired the capacity of legal entity. As a JSC, Komercijalna banka a.d. Podgorica regulates mutual relationships of all interested subjects in accordance with its Memorandum of Association and Articles of Association. The bodies of the company are the AGM of the Bank, Bard of Directors, Audit Committee and Executive Officers. The roles of the bodies of the Bank are defined in the Articles of Association and other bylaws of the Bank. As to the management, the Bank applies the best international corporate governance practices. The corporate governance is established in the following way:

- The legal framework of Montenegro and good business practices shall be observed in all corporate governance segments.
- Within this framework, the principles shall be set, which are flexible and provide the opportunity to the Board of Directors to direct and manage the Bank in the best way and achieve the goals set.
- All mutual relationships between interested parties in operation of the Bank shall be clearly differentiated, without overlapping and gaps in responsibilities and competences, and there shall be set a balance of responsibilities and obligations and/or rights and competences, with all interested parties.
- Relationships between all interested parties shall be set so that the common interest shall be predominant for all interested parties, i.e. the interest of the Bank shall prevail over their individual interests.
- All functions of directing and managing the Bank shall be carried out efficiently and effectively, i.e. the Bank shall be managed in the way leading to achievement of the set goals and objectives.

The said bylaws including other internal documents of the Bank are implemented in the application of corporate governance rules, and in the application thereof there are no deviations.

KOMBANK INVEST a.d. Beograd is organized in the form of a single member closed joint-stock company which is not public with a two-tier management system. In order to ensure impartiality, transparency and responsibility in the corporate behaviour, the Company applies Codes, Rules of Conduct and Professional Ethics, which are aligned with the parent company, Policy of Management of Conflict of Interest and Personal Transactions, etc.

The competences and powers of all bodies of the Group members are based on the relevant legislation and defined in internal bylaws. The corporate governance rules are implemented through internal bylaws, and there are no deviations in the application thereof.

Signed for and on behalf of Komercijalna banka a.d. Beograd

Д. Романдић

Director of the Controlling and Planning Department	Deputy CEO
Dragana Romandić	Dejan Janjatović

BALANCE SHEET CONSOLIDATED

as at 30.06.2021.

in RSD thousand

ITEM	ADP code	Amount 30.06. Current year	31.12. Previous year
1	2	3	4
ASSETS			
Cash and assets held with the central bank	0001	89.067.301	86.892.070
Pledged financial assets	0002	-	-
Receivables under derivatives	0003	-	-
Securities	0004	149.766.598	158.438.656
Loans and receivables from banks and other financial organisations	0005	45.534.005	18.865.483
Loans and receivables from clients	0006	224.500.357	219.433.627
Change in fair value of hedged items	0007	-	-
Receivables under hedging derivatives	0008	-	-
Investments in associated companies and joint ventures	0009	-	-
Investments into subsidiaries	0010	-	-
Intangible investments	0011	454.663	578.413
Property, plant and equipment	0012	6.458.975	6.743.199
Investment property	0013	2.221.956	2.145.007
Current tax assets	0014	27.538	19.661
Deferred tax assets	0015	2.484	2.484
Non-current assets held for sale and discontinued operations	0016	405.578	370.663
Other assets	0017	8.628.693	6.806.000
TOTAL ASSETS (from 0001 to 0017)	0018	527.068.148	500.295.263
LIABILITIES			
LIABILITIES, Liabilities under derivatives	0401	-	-
Deposits and other liabilities to banks, other financial organisations and central bank	0402	5.912.974	8.096.190
Deposits and other financial liabilities to clients	0403	431.058.218	406.192.067
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	3.523.236	2.696.346
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	-	2.079
Deferred tax liabilities	0411	85.979	176.573
Other liabilities	0412	7.886.668	5.569.878
TOTAL LIABILITIES (from 0401 to 0412)	0413	448.467.075	422.733.133
CAPITAL			
Share capital	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	5.720.556	4.811.998
Loss	0417	1.384.190	1.261.380
Reserves	0418	34.230.087	33.976.892
Unrealized losses	0419	-	-
Non-controlling participation	0420	70	70
TOTAL CAPITAL (0414-0415+0416-0417+0418-0419+0420) ≥ 0	0421	78.601.073	77.562.130
TOTAL CAPITAL SHORTFALL (0414-0415+0416-0417+0418-0419+0420) < 0	0422	-	-
TOTAL LIABILITIES (0413+0421-0422)	0423	527.068.148	500.295.263

INCOME STATEMENT - CONSOLIDATED

from 01.01.2021. to 30.06.2021.

in RSD thousand

ITEM	ADP code	Amount 01.01. - 30.06. Current year	01.01. - 30.06. Previous year
1	2	3	4
Interest income	1001	7.230.824	7.286.389
Interest expenses	1002	680.163	725.656
Net interest gains (1001-1002)	1003	6.550.661	6.560.733
Net interest losses (1002-1001)	1004	-	-
Income from fees and commissions	1005	3.700.634	3.464.697
Expenses on fees and commissions	1006	923.074	905.367
Net gains from fees and commissions (1005 - 1006)	1007	2.777.560	2.559.330
Net losses on fees and commissions (1006 - 1005)	1008	-	-
Net gains from changes in fair value of financial instruments	1009	2.280	36.489
Net losses from changes in fair value of financial instruments	1010	-	-
Net gains from reclassification of financial instruments	1011	-	-
Net losses on reclassification of financial instruments	1012	-	-
Net gains from derecognition of the financial instruments measured at fair value	1013	129.764	116.272
Net losses on derecognition of the financial instruments measured at fair value	1014	-	-
Net gains from hedging	1015	-	-
Net losses on hedging	1016	-	-
Net exchange rate gains and gains from agreed currency clause	1017	39.808	817
Net exchange rate losses and losses on agreed currency clause	1018	-	-
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	-	-
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	1.022.910	104.626
Net gains from derecognition of the financial instruments measured at amortised cost	1021	-	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	-	-
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	123.456	132.556
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	8.600.619	9.301.571
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1027	-	-
Salaries, salary compensations and other personal expenses	1028	2.714.238	3.446.840
Depreciation costs	1029	568.220	597.084
Other income	1030	130.286	745.582
Other expenses	1031	4.795.513	2.996.201
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	652.934	3.007.028
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) < 0	1033	-	-
Profit tax	1034	-	3.723
Gains from deferred taxes	1035	182.952	18.135
Losses on deferred taxes	1036	46.177	162.091
PROFIT AFTER TAX (1032-1033-1034+1035-1036) ≥ 0	1037	789.709	2.859.349
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	789.709	2.859.349
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-
Profit belonging to a parent entity	1043	789.708	2.859.349
Losses belonging to a parent entity	1044	1	-
Losses belonging to a parent entity	1045	-	-
Losses belonging to non-controlling owners	1046	-	-
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	1047		
Diluted earnings per share (in dinars, without paras)	1048		

STATEMENT OF OTHER COMPREHENSIVE INCOME - CONSOLIDATED

from 01.01.2021. to 30.06.2021.

in RSD thousand

ITEM	ADP code	Amount	
		01.01. - 30.06. Current year	01.01. - 30.06. Previous year
1	2	3	4
PROFIT FOR THE PERIOD	2001	789.709	2.859.349
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	-	7.894
Decrease in revaluation reserves based on intangible assets and fixed assets	2004	-	-
Actuarial gains	2005	-	-
Actuarial losses	2006	-	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	200.531	25.076
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	-	863
Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009	-	-
Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010	-	-
Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011	-	-
Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014	-	-
Components of other comprehensive income that may be reclassified to profit or loss:			
Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	2015	138.326	-
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	41.223	890.402
Gains from cash flow hedges	2017	-	-
Losses from cash flow hedges	2018	-	-
Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019	-	-
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	2.223	2.019
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	4.597	125.829
Tax losses relating to other comprehensive income for the period	2028	50.781	4.945
Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 -2024 + 2025 - 2026 + 2027 - 2028) ≥ 0	2029	249.227	-
Total negative other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 -2024 + 2025 - 2026 + 2027 - 2028) < 0	2030	-	739.430
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	1.038.936	2.119.919
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	-	-
Total positive comprehensive income for the period attributable to the parent entity	2033	1.038.936	2.119.919
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	-	-

CASH FLOW STATEMENT - CONSOLIDATED

from 01.01.2021. to 30.06.2021.

in RSD thousand

ITEM	ADP code	Amount	
		01.01. - 30.06. Current year	01.01. - 30.06. Previous year
1	2	3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES			
I. Cash inflow from operating activities (from 3002 to 3005)	3001	15.077.622	11.179.920
1. Interest	3002	9.640.884	7.385.896
2. Fees	3003	3.729.214	3.500.432
3.Other operating income	3004	1.705.162	289.503
4. Dividends and profit sharing	3005	2.362	4.089
II. Cash outflow from operating activities (from 3007 to 3011)	3006	7.669.701	6.308.846
5. Interest	3007	581.751	557.831
6. Fees	3008	920.558	923.478
7. Gross salaries, salary compensations and other personal expenses	3009	2.304.823	2.125.904
8. Taxes, contributions and other duties charged to income	3010	438.738	426.862
9. Other operating expenses	3011	3.423.831	2.274.771
III. Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)	3012	7.407.921	4.871.074
IV. Net cash outflow from operating activities before an increase or decrease in financial assets and financial liabilities (3006 - 3001)	3013	-	-
V. Decrease in financial assets and increase in financial liabilities (from 3015 to 3020)	3014	30.513.110	18.892.772
10. Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	-
11. Decrease in receivables under securities and other financial assets not intended for investment	3016	7.869.117	-
12. Decrease in receivables under hedging derivatives and change in fair value of hedged items	3017	-	-
13. Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	3018	22.643.993	18.892.772
14. Increase in other financial liabilities	3019	-	-
15. Increase in liabilities under hedging derivatives and change in fair value of hedged items	3020	-	-
VI. Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)	3021	17.777.433	3.580.065
16. Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	17.777.433	3.526.248
17. Increase in receivables under securities and other financial assets not intended for investment	3023	-	53.817
18. Increase in receivables under hedging derivatives and change in fair value of hedged items	3024	-	-
19. Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	3025	-	-
20. Decrease in other financial liabilities	3026	-	-
21. Decrease in liabilities under hedging derivatives and change in fair value of hedged items	3027	-	-
VII. Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)	3028	20.143.598	20.183.781
VIII. Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3029	-	-
22. Profit tax paid	3030	9.957	3.221
23. Dividends paid	3031	9.797	-
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3032	20.123.844	20.180.560
X. Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)	3033	-	-
B. CASH FLOW FROM INVESTING ACTIVITIES			
I. Cash inflow from investing activities (from 3035 to 3039)	3034	12.586.894	15.379.003
1. Investment in investment securities	3035	12.586.894	15.379.003
2. Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3. Sale of intangible investments, property, plant and equipment	3037	-	-
4. Sale of investment property	3038	-	-
5. Other inflow from investing activities	3039	-	-
II. Cash outflow from investing activities (from 3041 to 3045)	3040	13.877.760	34.009.095
6. Investment into investment securities	3041	13.809.123	33.893.816
7. Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8. Purchase of intangible investments, property, plant and equipment	3043	68.637	115.279
9. Purchase of investment property	3044	-	-
10. Other outflow from investing activities	3045	-	-
III. Net cash inflow from investing activities (3034 - 3040)	3046	-	-
IV. Net cash outflow from investing activities (3040 - 3034)	3047	1.290.866	18.630.092
C. CASH FLOW FROM FINANCING ACTIVITIES			
I. Cash inflow from financing activities (from 3049 to 3054))	3048	204.642.371	108.453.378
1. Capital increase	3049	-	-
2. Subordinated liabilities	3050	-	-
3.Loans taken	3051	204.642.371	108.453.378
4. Issuance of securities	3052	-	-
5. Sale of own shares	3053	-	-
6. Other inflow from financing activities	3054	-	-
II. Cash outflow from financing activities (from 3056 to 3060)	3055	204.880.343	106.823.443
7. Purchase of own shares	3056	-	-
8. Subordinated liabilities	3057	-	-
9. Loans taken	3058	204.614.297	106.558.542
10. Issuance of securities	3059	-	-
11. Other outflow from financing activities	3060	266.046	264.901
III. Net cash inflow from financing activities (3048 - 3055)	3061	-	1.629.935
IV. Net cash outflow from financing activities (3055 - 3048)	3062	237.972	-
D. TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3063	262.819.997	153.905.073
E. TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	244.224.991	150.724.670
F. NET INCREASE IN CASH (3063-3064)	3065	18.595.006	3.180.403
G. NET DECREASE IN CASH (3064-3063)	3066	-	-
H. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	54.055.112	44.519.620
I. EXCHANGE RATE GAINS	3068	940.380	768.347
J. EXCHANGE RATE LOSSES	3069	895.929	684.116
K. CASH AND CASH EQUIVALENTS AT END-PERIOD (3065-3066+3067+3068-3069)	3070	72.694.569	47.784.254

STATEMENT OF CHANGES IN EQUITY - CONSOLIDATED

from 01.01.2021 to 30.06.2021

in RSD thousand

DESCRIPTION	ADP	Share capital and other equity (accounts 800,801,803,809)	ADP	Own shares (account 126)	ADP	Premium on issue of shares (account 802)	ADP	Reserves from profit and other reserves (group of accounts 81)	ADP	Revaluation reserves (group of accounts 82 credit balance)	ADP	Revaluation reserves (group of accounts 82 debit balance)	ADP	Profit (group of accounts 83)	ADP	Loss (accounts 840, 841, 842)	ADP	Non-controlling participation	ADP	Total columns 2-3+4+5+6-7+8-9+10) ≥ 0	ADP	Total (columns 2-3+4+5+6-7+8-9+10) < 0
1		2		3		4		5		6		7		8		9		10		11		12
Opening balance as at 1 January of the previous year	4001	17.191.466	4033	-	4065	22.843.084	4097	21.849.594	4129	8.876.046	4147	248	4165	9.981.896	4203	1.370.332	4241	70	4285	79.371.576	4291	-
Effects of the first implementation of new IFRS - increase	4002	-	4034	-	4066	-	4098	-	4130	-	4148	-	4166	-	4204	-	4242	-	x	x	x	x
Effects of the first implementation of new IFRS – decrease	4003	-	4035	-	4067	-	4099	-	4131	-	4149	-	4167	-	4205	-	4243	-	x	x	x	x
Changes in accounting policies and correction of prior period error – increase	4004	-	4036	-	4068	-	4100	-	4132	-	4150	-	4168	-	4206	-	4244	-	x	x	x	x
Changes in accounting policies and correction of prior period error – decrease	4005	-	4037	-	4069	-	4101	-	4133	-	4151	-	4169	-	4207	-	4245	-	x	x	x	x
The adjusted opening balance as at 1 January of the previous year (No. 1+2-3+4-5)	4006	17.191.466	4038	-	4070	22.843.084	4102	21.849.594	4134	8.876.046	4152	248	4170	9.981.896	4208	1.370.332	4246	70	4286	79.371.576	4292	-
Total positive other comprehensive income for the period	x	x		x	x	x	x	x	4135	13	4153	248	x	x	x	x	4247	-	x	x	x	x
Total negative other comprehensive income for the period	x	x		x	x	x	x	x	4136	331.981	4154	-	x	x	x	x	4248	-	x	x	x	x
Profit for the current year	x	x		x	x	x	x	x	x	x	x	x	4171	3.001.510	x	x	4249	1	x	x	x	x
Loss for the current year	x	x		x	x	x	x	x	x	x	x	x	x	x	4209	-	4250	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – increase	x	x		x	x	x	x	x	x	x	x	x	4172	-	4210	-	4251	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x		x	x	x	x	x	x	x	x	x	4173	-	4211	-	4252	-	x	x	x	x
Transactions with owners recognized directly in equity – increase	4007	-	4039	-	4071	-	4103	-	x	x	x	x	4174	-	4212	-	4253	-	x	x	x	x
Transactions with owners recognized directly in equity – decrease	4008	-	4040	-	4072	-	4104	-	x	x	x	x	4175	-	4213	-	4254	-	x	x	x	x
Distribution of profit – increase	4009	-	4041	-	4073	-	4105	3.583.264	x	x	x	x	4176	-	4214	-	4255	-	x	x	x	x
Distribution of profit and/or coverage of losses – decrease	4010	-	4042	-	4074	-	4106	-	x	x	x	x	4177	3.692.089	4215	108.805	4256	-	x	x	x	x
Dividend payments	4011	-	4043	-	4075	-	4107	-	x	x	x	x	4178	4.477.879	4216	-	4257	-	x	x	x	x
Other – increase	4012	-	4044	-	4076	-	4108	-	x	x	x	x	4179	24.580	4217	-	4258	-	x	x	x	x
Other – decrease	4013	-	4045	-	4077	-	4109	44	x	x	x	x	4180	26.040	4218	147	4259	1	x	x	x	x
Total transactions with owners (No. 13-14+15-16-17+18-19) ≥ 0	4014	-	4046	-	4078	-	4110	3.583.220	x	x	x	x	4181	-	4219	-	4260	-	x	x	x	x
Total transactions with owners (No. 13-14+15-16-17+18-19) < 0	4015	-	4047	-	4079	-	4111	-	x	x	x	x	4182	8.171.408	4220	108.952	4261	1	x	x	x	x
Balance as at 31 December of the previous year (No. 6+7-8+9-10+11-12+20-21 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 6+8-7)	4016	17.191.466	4048	-	4080	22.843.084	4112	25.432.814	4137	8.544.078	4155	-	4183	4.811.998	4221	1.261.380	4262	70	4287	77.562.130	4293	-
Opening balance as at 1 January of the current year	4017	17.191.466	4049	-	4081	22.843.084	4113	25.432.814	4138	8.544.078	4156	-	4184	4.811.998	4222	1.261.380	4263	70	4288	77.562.130	4294	-
Effects of the first implementation of new IFRS - increase	4018	-	4050	-	4082	-	4114	-	4139	-	4157	-	4185	-	4223	-	4264	-	x	x	x	x
Effects of the first implementation of new IFRS – decrease	4019	-	4051	-	4083	-	4115	-	4140	-	4158	-	4186	-	4224	-	4265	-	x	x	x	x
Changes in accounting policies and correction of prior period error – increase	4020	-	4052	-	4084	-	4116	-	4141	-	4159	-	4187	-	4225	-	4266	-	x	x	x	x
Changes in accounting policies and correction of prior period error – decrease	4021	-	4053	-	4085	-	4117	-	4142	-	4160	-	4188	-	4226	-	4267	-	x	x	x	x
Adjusted opening balance as at 1 January of the current year (No. 23+24-25+26-27)	4022	17.191.466	4054	-	4086	22.843.084	4118	25.432.814	4143	8.544.078	4161	-	4189	4.811.998	4227	1.261.380	4268	70	4289	77.562.130	4295	-
Total positive other comprehensive income for the period	x	x	x	x		x	x	x	4144	277.786	4162	-	x	x	x	x	4269	-	x	x	x	x
Total negative other comprehensive income for the period	x	x	x	x	x	x	x	x	4145	28.601	4163	-	x	x	x	x	4270	-	x	x	x	x
Profit for the current year	x	x	x	x	x	x	x	x	x	x	x	x	4190	789.708	x	x	4271	1	x	x	x	x
Loss for the current year	x	x	x	x	x	x	x	x	x	x	x	x		x	4228	-	4272	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – increase	x	x	x	x	x	x	x	x	x	x	x	x	4191	-	4229	-	4273	-	x	x	x	x
Transfer from provisions to retained earnings due to provisions reversal – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4192	-	4230	-	4274	-	x	x	x	x
Transactions with owners recognized directly in equity – increase	4023	-	4055	-	4087	-	4119	-	x	x	x	x	4193	-	4231	-	4275	-	x	x	x	x
Transactions with owners recognized directly in equity – decrease	4024	-	4056	-	4088	-	4120	-	x	x	x	x	4194	-	4232	-	4276	-	x	x	x	x
Distribution of profit – increase	4025	-	4057	-	4089	-	4121	4.060	x	x	x	x	4195	-	4233	-	4277	-	x	x	x	x
Distribution of profit and/or coverage of losses – decrease	4026	-	4058	-	4090	-	4122	-	x	x	x	x	4196	63.697	4234	59.637	4278	-	x	x	x	x
Dividend payments	4027	-	4059	-	4091	-	4123	-	x	x	x	x	4197	-	4235	-	4279	-	x	x	x	x
Other – increase	4028	-	4060	-	4092	-	4124	-	x	x	x	x	4198	182.600	4236	182.600	4280	-	x	x	x	x
Other – decrease	4029	-	4061	-	4093	-	4125	50	x	x	x	x	4199	53	4237	153	4281	1	x	x	x	x
Total transactions with owners (No. 35-36+37-38-39+40+41) ≥ 0	4030	-	4062	-	4094	-	4126	4.010	x	x	x	x	4200	118.850	4238	122.810	4282	-	x	x	x	x
Total transactions with owners (No. 35-36+37-38-39+40+41) < 0	4031	-	4063	-	4095	-	4127	-	x	x	x	x	4201	-	4239	-	4283	1	x	x	x	x
Balance as at 30 June of the current year (No. 28+29-30+31-32+33-34+42-43 for columns 2,3,4,5,6,8,9,10), for column 7 (No. 28+30-29)	4032	17.191.466	4064	-	4096	22.843.084	4128	25.436.824	4146	8.793.263	4164	-	4202	5.720.556	4240	1.384.190	4284	70	4290	78.601.073	4296	-

KOMERCIJALNA BANKA AD BEOGRAD

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS AS OF

30.06.2021

Belgrade, August 2021

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2021

1. ESTABLISHMENT AND BUSINESS ACTIVITY OF THE BANKING GROUP

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

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

NLB d.d. Ljubljana	88.28%

The Parent Bank has started the integration process with NLB Bank AD, Belgrade and is working on providing conditions for adequate implementation of the integration, which will be completed in the first half of 2022.

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

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

Minority shareholder in Komercijalna Banka a.d. Banja Luka with 0.002% is NLB d.d. Ljubljana.

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

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

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

Investment Fund Management Company KomBank INVEST a.d. Beograd was founded in December 2007 and was registered on 5th February 2008. The Company's registration number is 20379758.In accordance with the Law on Open-End Investment Funds with a public offering, the business name was changed on November 04, 2021 to the UCITS Fund Management Company KomBank INVEST a.d., Belgrade.

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

As of 30th June 2021 the Group consisted of: headquarters and the seat of the Parent Bank in Belgrade, 14 Svetog Save Street; headquarters of Komercijalna Banka a.d. Podgorica in Podgorica – Cetinjska 11, Business Centre Capital Plaza; headquarters of Komercijalna Banka a.d. Banja Luka in Banja Luka – Jevrejska Street no. 69; headquarters of the UCITS Fund Management Company KomBank INVEST a.d., Beograd in Belgrade, in 19 Kralja Petra St; 6 business centers, 3 sectors for work with small and medium enterprises, 20 branch offices and 210 branches in Serbia, Montenegro and Bosnia and Herzegovina (2020: 6 business centers, 3 sectors for work with small and medium enterprises, 20 branches and 213 branch offices).

As of June 30, 2021 the Group hired 2,730 employees, while on December 31 2020 it had 2,985 employees.

2. BASIS OF PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements for the Group as of 30.06.2021 have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

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

When preparing the semi-annual financial statements for 2021 the Group applied new Accounting policies in the part that concerns the financial instruments and enabling the allocation of credit loss to all accounting periods when benefits from funds are derived, which is an assumption for determining the accurate result.

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

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

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

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

During 2021, the Group members maintained the books of accounts and prepared standalone financial statements in accordance with local legal requirements, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as well as the regulations of the competent central banks and regulatory bodies. The standalone annual financial statements of each member of the Group have been audited by external auditors, in accordance with applicable local regulations. The semi-annual financial statements are not subject to audit in accordance with the applicable legal regulations of the Group members.

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

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

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

3. OVERVIEW OF KEY ACCOUNTING POLICIES

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

(a) Consolidation

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

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

When preparing consolidated Profit and Loss Statement and consolidated Cash Flow Statement, for recalculation of reclassified forms of subsidiary banks an average exchange rate of the National Bank of Serbia was used for 2021 of 117.5761 to the EUR and 60.1157 to the BAM and for other reclassified financial statements (Balance Sheet, Statement of Other Comprehensive Income and Statement of Changes in Equity) the closing exchange rate on the balance-sheet date was used of 117.5660 to the EUR or 60.1105 to the BAM.

(b) Recalculation of FX amounts

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

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

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

		In dinars
	30.06.2021	**31.12.2020**
USD	98.7369	104.6329
EUR	117.5660	117.5760
CHF	107.1607	109.9252
BAM	60.1105	60.1157

(c) Interest

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

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

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

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

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

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

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

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

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

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

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

(č) Fees and commissions

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

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

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

Other income from fees and commissions is recorded at the moment of services provided. Income from fees and commissions includes revenues from international and domestic payment services, issuance and use of payment cards and other banking services.

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

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

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

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

(dj) Dividends

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

(dž) Tax expenses

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

(i) Current corporate income tax

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

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

(ii) Deferred taxes

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

Deferred tax assets are recognized for all deductible temporary differences and effects of tax losses and credits that can be carried over to the following fiscal periods up to the degree to which there will probably be taxable profit that tax loss is taken from and the loans can be reduced. Deferred tax assets are the subject of analysis at the end of each reporting period and are adjusted to the amount for which it is no longer probable that the necessary taxable profit will be realized. Deferred tax liabilities are recognized for all taxable temporary differences.

(iii) Other taxes and contributions

In accordance with the applicable regulations in the Republic of Serbia, Montenegro and Bosnia and Herzegovina, Group members pay different taxes and contributions, value added tax, capital gains tax and salary contributions. These expenses are included in “Other operating expenses”.

(đ) Financial instruments

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

Financial assets

Financial asset is each asset which is

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

Financial liabilities

Financial liability is every contractual liability of a group member:

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

Valuation rules for financial instruments

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

Financial assets

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

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

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

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

Financial assets can be classified into the following categories:

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

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

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

(e) Cash and cash equivalents

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

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

(f) Property and equipment

(f.1) Recognition and valuation

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

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

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

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

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

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

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

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

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

(f.2) Subsequent expenses

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

(f.3) Depreciation

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

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

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

Description	Estimated useful life (in years)	%
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	3 – 15	6.70% - 50.00%
Investment in others' fixed assets	1.2-23.6	4.25% - 86.20%
Fixed assets held under a lease	1.00 -14.11	6.70%–100.00%

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

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

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

(f.4) Leasing assets

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

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

The acquisition value is subsequently reduced by:

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

(g) Intangible assets

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

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

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

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

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

Depreciation is shown in profit&loss in equal annual amounts during the estimated life of the given item of intangible investment, given that this best reflects the expected consumption of useful economic value contained in an asset. Estimated useful life of intangible assets is 2 to 10 years i.e. depreciation rates range between 10.00% and 50.00%.

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

(h) Investment property

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(j) Leasing liabilities

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

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

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

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

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

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

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

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

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

(k) Impairment of non-financial assets

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

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

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

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

(l) Deposits, loans and subordinated liabilities

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

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

(lj) Provisions

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

Provisions are recognised when:

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

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

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

On a daily basis, the Parent Bank monitors the number of received legal disputes on all grounds, and especially the legal disputes from retail clients on previously charged loan fees, for which Parent Bank noticed material increase. The Parent Bank believes that this is unsubstantiated, and the National Bank of Serbia confirmed the same in its statements. NLB d.d. as the main shareholder and other foreign investors have joined NBS and IMF in asking authorities to find a remedy to this unattainable situation.

(m) Financial guarantees

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

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

(n) Capital and reserves

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

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

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

(nj) Earnings per share

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

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

(o) Reporting by segments

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

4. RISK MANAGEMENT

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

The Group has established a comprehensive risk management system, risk management, strategies, risk management, individual risk management, an appropriate organizational structure, effective and efficient management of all risks that the Group ank is exposed or may be exposed to Its business, an adequate system of internal controls, an appropriate information system and an adequate process of internal assessment of capital adequacy. Since it became a member of the NLB Group at the end of the previous year, during the first half of Strategic Acts in the field of risk management (risk appetite - statement, internal limits, fair evaluation methodology, risk management strategy, risk management strategy, risk management Individual risk management policies, internal rating system, the process of internal capital adequacy assessment (ICAAP) and the internal assessment process of liquidity adequacy (ILAAP), etc.).

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

Risk Management Strategy and Capital Management Strategy, the Group has set the following objectives within the framework of the risk management system: minimizing the negative effects on the financial result and capital, while respecting the defined risk tolerance framework, diversifying the risks to which the Group is exposed, maintaining the required level of common equity Tier 1, Tier 1 and total capital adequacy, maintaining the participation of risky placements (NPL) in total loans at the acceptable level for the Group, maintenance of liquidity coverage ratios above the regulatory prescribed and internally adopted limits, the development of the Group's activities in accordance with the business strategy, opportunities and market development in order to achieve competitive advantages. The objectives of risk management are in line with the Group's business plan.

Respecting the needs of the Group's risk management systems, and the needs of continuous improvement of the risk management process, the recommendations of the external auditor, as well as the new situation caused by the COVID-19 pandemic, the group on the sub-consolidated basis carried out appropriate changes to internal acts governing risk management in the H1 2021.

Risk Management System

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

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

The risk management strategy defines the basic risks to which the group is exposed or can be exposed, as well as the basic principles of identification, monitoring, measurements, controls and management of these risks, as well as a risk to take risks (risk appetite). The Strategy has been established a comprehensive and reliable risk management system, which is included in all activities of the group on a sub-coated basis and that ensures that risky appetite and profile are always in line with the already established risks to risks. The risk management system is proportioned to nature, scope and complexity of the bank's business, ie its risk profile.

Also, risk management strategies, as well as basic principles non-performing assets management and highest acceptable levels of it, as well as management of exposure in foreign currency and exposure with currency clause.

Key principles related to risk management, and are an integral part of business decisions process, expressed using the following criteria:
• Determining target business activities and activities that are not eligible, in terms of the risks exposure,
• Determining the maximum level of the risk exposure,
• Monitoring the profitability of individual transactions related to the risks.

The Risk Management Strategy is based on:
• Strategic goals defined in the Business Strategy of Komercijalna banka ad Belgrade,
• Risk-taking guidelines defined in the risk appetite of Komercijalna banka ad Belgrade,
• Regular annual review of strategic goals, process planning and capital planning,
• Process of internal capital adequacy (ICAAP) and internal liquidity assessments (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 NLB Group level.

The Group is kept the main principles of risk management by in its business:
• takes into account the main concept of risky appetite and a limity defined in the risk appetite;
• includes risk analysis in the decision-making process at a strategic and operational level in order to prevent risks that carry volatile exposures with a potentially negative outcome;
• Applies diversification to avoid concentration at portfolio level;
• Includes and optimally use capital and manages its allocation through business segments;
• Creates adequately balanced risk weighted (custom) price;
• Provides overall business compliance through internal acts / documents;
• Provides an adequate system of internal controls based on the "three defense lines".

The Group has established basic risk management principles to meet its long-term goals:
• Risk assessment and management is adapted to achieving the business strategy and plans of individual members;
• Risk management and risk management is based on the risk management system consistent with legal regulations in the Republic of Serbia and the countries of the Sedanta member group, standards in the NLB group and good business practice in this area;
• The risk management is one of the key management functions. This function is integrated into all business activities, so that clearly separated phases of identification, measurements and risk monitoring, on the one hand, and take over and risk management, on the other hand, with respect for the principle of independence;
• The risk management is based on strategy and risk management policies. It is a documented process with clearly established goals, during activities, responsibilities;
• Risk management is determined according to the set legal and internally prescribed limits by risk categories, with clearly defined procedures in case of limitation of limits;
• The risk management involves establishing and applying the appropriate internal control system. These controls represent a set of processes and procedures that include continuous check, reporting and changes in order to develop, ie improving risk management systems.

Within the management of NPE (non-performing exposure), depending on the assessment of the potential ability to repay and business sustainability of clients, the Bank has the following options available:
• agreement with the client on voluntary (outdoor and court) payments;
• Centralized billing before the court by phone;
• Debt restructuring without discount;
• Debt restructuring;
• Debt collection (liquidation of collateral - sale of real estate, movable property, securities, share, receivables, etc.);
• retrieval of adequate assets (especially real estate - a solution based on special purpose subjects, aimed at the comprehensive management of a mortgage property);
• write off the remaining receivables in case all legal possibilities are exhausted;
• Sales of receivables, if possible, in the package;
• Active management issued guarantees for construction companies in bankruptcy in cooperation with contractual partners;
• Application of other measures to achieve maximum debt repayment.

Policies for managing certain risk types define the following:

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

Procedures for managing certain risk types define, in greater detail, the process of managing risks and competencies and responsibilities of all organizational units of the Parent Bank and banking Group members in the risk management system.

Individual methodologies further and in more detail prescribe methods and approaches used in the risk management system.

Competencies

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

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

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

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

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

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

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

The internal audit function is responsible for continuously conducting an independent evaluation of the risk management system at the Group level, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit on its findings and recommendations is reported by the Audit Committee and the Steering Committee.

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

Risk Management Process

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

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

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

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

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

Risk Types

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

4.1. Credit Risk

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

During the 2020, as well as the first half of 2021, a special credit risk management challenge was caused by the COVID-19 pandemic, which are completely different in relation to the earlier operations of the business with whom the real and financial sector met.

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

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

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

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

The organizational model of the Group's credit risk management system ensures adequate communication, information exchange and cooperation at all organizational levels, and also provides a clear, operational and organizational separation of the function of independent risk management and support activities on the one hand, from risk-taking activities, competencies and responsibilities, on the other. Members of the Group have established an adequate information system that includes full information of persons involved in the credit risk management system, as well appropriate reporting of management bodies.

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

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

The basic principles of credit risk management are as follows:

- Managing credit risk at the individual loan level as well as the Group's entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the Group's financial result and capital;

- Loan rating according to risk;
- Operating in accordance with best banking practices of loan approval;
- Ensuring adequate credit risk management controls.

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

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

The rating system is not merely an instrument for encasement individual decisions and assessing risk levels of individual investments; in addition to the above, the rating system is used to assess the risk level of the total portfolio, and it is also used in the procedure of impairment of placement in order to rank the level of risk and express real value of receivables. The internal rating system is subject to regular audit and promotion. As part of the process of harmonizing risk management systems with a relevant system at the level of the NLB Group, during the first half of 2021, the process of harmonizing the internal rating of the system started.

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

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

Basic credit risk mitigation techniques are:

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

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

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

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

By the Decision on risk concentration management based on the exposure of the bank to certain types of products, the National Bank of Serbia, from January 1, 2019 prescribed the banks obligation to monitor the risk of concentration or exposure of the bank to groups of products, primarily exposure to cash, consumer and other loans granted to retail sector of contractual maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

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

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

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

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

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

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

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

IFRS 9 Financial instruments

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

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

Given that the Parent Bank and members of the Group became a members of the NLB Group at the end of the last year, during the first half of 2021, the harmonization of impairment methodologies with the established rules at the banking group levels were initiated. In the first half of 2021, the values of hair cuts were harmonized for the individualization of material significance for the provision of natural persons, the calculation of placements was changed, changed PD to calculate the impairment of securities of Republic of Serbia and the the application of LGD has changed.

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

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

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

Identification of problematic and restructured claims

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

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

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

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

Problematic claims include all the claims that are late in settling obligations over 90 days past due per any materially significant obligation towards the Bank (parent company) or subsidiaries, claims for which based on assessed financial position is estmated that the borrower will not be able to meet its obligations in full, without taking into account the possibility of realization of credit protection instruments (regardless of whether it is late in settlement of liabilities), claims for which the impairment loss is determined on an individual basis.

Claims are also considered to be problematic if these fulfill the following: the bank puts interest income and commission and fees income owed by the borrower on non-accrued status in the income statement; the bank recognises a specific adjustment for credit risk resulting from a significant perceived decline in credit quality subsequent to the bank taking on the exposure; the material loss created by the sale of the obligation; restructuring of claims due to financial difficulties of the borrower; the bank has submitted a proposal for the obligor’s bankruptcy. Problematic receivables include all receivables from debtors, if one claim is classified in the group of problematic claims.

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

In addition, receivables that are classified in the category of restructured debts are those for which:

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

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

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

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

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

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

Wirh each change in credit conditions, for the clients’ placements that are not designated as problematic (PL), as well as for bad (NPL) clients, the Group calculates a 10% test in order to determine whether it is a significant or less significant modification.

Group members record any assets’ modification in the system, whether there is a significant or less significant modification, and whether the modification is due to a change in market conditions for good (PL) clients or due to poor business operating of non-performing (NPL) clients.

The Group members regularly monitor the measures taken to restructure the risky placements and control the timeliness of taking these measures. Monitoring of the measures taken, or the realization of the same, such as settlement of due liabilities, is carried out on a daily basis. Monitoring of restructured business clients is performed regularly every 6 months, or more often if necessary.

Analysis of financial statements, analysis of indebtedness, verification of adequacy of collaterals, monitoring of overall operations, strategies toward individual debtors, are the key points of above mentioned monitoring.

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

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

Risk of asset quality change

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

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

A low level of risk implies doing business with customers with a high credit rating, increased level of risk implies doing business with customers with operating difficulties that could have a negative impact on the settlement of liabilities, and a high level of risk characterizes customers with negative operating results and poor credit rating.

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

Risk of asset value change – asset delinquency

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

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

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

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

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

Individual and Group Assessment in Stage 3

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

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

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

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

- When the financial position of the borrower points to significant problems in its business;
- When there are information on default, frequent delay in repayment or non-fulfillment of other contractual clauses;
- When a member of the Group, due to the financial difficulties of the borrower, significantly changes the repayment conditions in relation to initially contracted;
- The borrower can not settle its obligations in total without the realization of the collateral;
- Continuous account blockade over 60 days;
- When there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of the borrower) and similar.

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

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

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

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

Group Assessment

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

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

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

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

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

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

In the previous period, all clients with exposure through a defined level were analyzed, which operate in activities for which they are assessed to be the most negative effects of the Cavid-19 pandemic. All clients for which it is estimated that they are, exposed to the effects of Pandemia Virus COVIn-19, although previously defined transfer criteria in stage 2 in accordance with IFRS 9 standards, are immediately classified into stage 2, executed is also an analysis of clients from the population segment that are employed by non-state and unclear sectors and non-retirees. If the absence of earnings have been identified for these clients, or it is impaired above the defined stage, the transfer of such clients in the stage 2, consequently, for these clients, is also calculated for the entire loan period.

During the first half of 2021, the Parent Bank continued to approve loands with COVID-19 mearsures if they were affected by COVID 19 in accordance with the NBS decision (Moratorium 3) and in accordance with the decision of the Government of the Republic of Serbia (guarantee scheme 1 and 2).

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

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

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

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

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

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

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

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

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

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

For the purposes of inclusion of forward looking information (FLI), the Group includes three different macroeconomic variables' movements scenarios in the calculation of Beta factor (optimistic, realistic and pessimistic), with the subsequent weighting with the corresponding probabilities of realization of each scenario, in order to obtain the final Beta factor which comprises all of three scenarios (optimistic, realistic and pessimistic).

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

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

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

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

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

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

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

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

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

Assessment of Provisions for Probable Losses on Off-Balance Sheet Items

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

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

Means of protection against credit risk (collaterals)

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

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

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

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

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

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

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

Regular monitoring of real estate involves checking the value of real estate on the basis of available data and information, the comparison of the value of the real estate from portfolio with movements in the market value in the Group members country market (realized sales, supply and demand) by the regions listed in the catalog of collateral, the use of statistical models, etc.

For all the commercial real estates, the Group members conduct verification of value at least once a year, and for residential and other real estate at least once every three years.

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

4.2. Liquidity Risk

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

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

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

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

In order to minimize liquidity risk, the Group:

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

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

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

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

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

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

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

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

The Group's operations are reconciled daily with legally prescribed limits of liquidity ratio as follows: minimum 0.8 for one working day; minimum 0.9 for no longer than three consecutive working days and minimum 1 as the average liquidity ratio for all working days in a month, as well with limits of narrow liquidity ratio as follows: minimum 0.5 for one working day; minimum 0.6 for no longer than three consecutive working days and minimum 0.7 as the average liquidity ratio for all working days in a month. During the first half of 2021 the Group maintained the liquidity coverage ratio (LCR) cumulatively in all currencies, at the level which is not below the regulatory prescribed limit of 100%.

During the first half of 2021 the Group's liquidity ratio, narrow liquidity ratio and liquidity coverage ratio were well above the prescribed limits.

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

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

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

Market Risks

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

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

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

4.3. Interest Risk

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

The Group manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

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

During the first half of 2021 the Group's interest rate risk ratios were within internally prescribed limits.

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

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

The Risk of Changes in Interest Rates

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

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

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

4.4. Foreign Currency Risk

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

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

The Group has established appropriate organizational structure, which allows for clear differentiation between the process of assuming currency risk and the process of managing currency risk.

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

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

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

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

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

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

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

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

Ten-Day VaR

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

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

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

4.5. Operational Risk

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

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

Stress test represents an operational risk management technique which is used to assess potential effects of specific events and/or changes in several risk factors on the exposure to operational risk.

The Group cannot eliminate all operational risks, but by introducing a rigorous framework of control, monitoring and response to potential risks it is capable of managing these risks. The Group takes measures in order to relieve operational risks and ensure proactive response to events potentially creating operational risks through continued monitoring of all activities, application of adequate and

reliable information system and by applying project approach orientation, the implementation of which helps improve the business practice and optimize the Group's business processes.

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

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

4.6. Investment Risks

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

4.7. Exposure Risk

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

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

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

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

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

4.8. Country Risk

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

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

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

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

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

4.10. Capital Management

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

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

Basic goals of capital management are:

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

The banking Group regulatory capital represents the sum of the Tier 1 capital (comprised of Common Equity Tier 1 Capital and Additional Tier 1 Capital) and Tier 2 capital, reduced for deductible items.

The capital adequacy ratios represent the Group's capital (total, Tier 1 or Common Equity Tier 1 Capital) relative to the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries; risk exposure amount for settlement/delivery (except for free deliveries); risk exposure amount for market risks; risk exposure amount for operational risk; risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book.

Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries at the Group level are determined according to risk weights prescribed for all types of assets. Risk exposure amount for operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line.

Capital adequacy ratio

	30.06.2021.	**31.12.2020.**
Tier 1 (T1) Capital	71,116,551	70,902,630
Common Equity Tier 1 (CET1) Capital	70,743,041	70,529,120
Additional Tier 1 (AT1) Capital	373,51	373,51
Deductible items	(1,870,939)	(1,881,099)
Capital	**69,245,612**	**69,021,531**
Credit risk-weighted assets	215,071,973	199,051,603
Operational risk exposure	37,304,676	36,826,475
Foreign market risk exposure	2,015,283	3,594,496
Capital adequacy ratio (min. 18.83%)	**27.22%**	**28.82%**
Tier 1 capital adequacy ratio (min. 15.63%)	**27.22%**	**28.82%**
Common Equity Tier 1 capital adequacy ratio (min. 13.23%)	**27.07%**	**28.67%**

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

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

During H1 2021, the Group also calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of Tier 1 capital and the amount of risk weighted exposures that are included in the calculation of the ratio.

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

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

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

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

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

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

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

5. RECOGNITION AND INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

5.1. Subsequent measurement of the financial instruments

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

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

5.2. Modification of financial assets

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

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

5.3. Derecognition

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

6. REPORTING BY SEGMENTS

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

Information on the results of each reporting segment are shown below

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

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

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

The Balance Sheet total of the Parent Bank amounts to 90.48% of the total balance sheet amounts of the consolidated balance sheet (2020: 90.98%)

Balance Sheet total of Komercijalna banka a.d.,.Podgorica amounts to 3.37% of total consolidated assets (2020: 3.42%), Komercijalna banka a.d., Banja Luka 6.12% (2020: 5.57%) i KomBank INVEST-a 0.03% (2020: 0.03%).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2021

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

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

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

As of 30.06.2021 the following reclassifications were made in the Balance Sheet and profit and loss statement positions by Group members, except for the member KomBank INVEST, where there was no reclassification effect:

BALANCE SHEET in 000 RSD

Balance Sheet total of Parent Bank	**480,552,997**
Reclassification for the impairment provisions which pertain to the decrease of value in shares of the subsidiaries	2,047,191
Reclassification for impairment provision pertaining to loans to subsidiaries	356
Reclassified Balance Sheet total of the Parent Bank	**482,600,544**

Statutory Balance Sheet total of KB Banja Luka	**32,267,469**
Reduction for deferred costs for liabilities presented at amortized cost by applying EIR	(48,439)
Reclassification for impairment provision related to the Parent Bank	786
Reclassification for securities – yield curve method according to Parent Bank, according to regulator the adjusted yield curve method	153,642
Interest for impairment stage 3 receivables (according to regulator derecognized, and/or transferred to Off-Balance Sheet)	21,832
Valuation of material asset acquisition (acquisition) - According to regulator valuation of assets at net value of receivables, according to the methodology of the Parent Bank gross value of receivables	3,384
Impairment provision – regulator's methodology	582,080
Impairment provision - Parent Bank's methodology	(349,573)
Netting of deferred tax assets and liabilities	(775)
Reclassified Balance Sheet total by the model of the Parent Bank	**32,630,406**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
30 June 2021

in 000 RSD

Statutory Balance Sheet total of KB Podgorica	**18,127,774**
Leased fixed assets (the effects of implementation of IFRS 16)	(15,844)
Reclassification for impairment provision relating to the Parent Bank	231
Netting of deferred tax assets and liabilities	(3,603)
Reclassified Balance Sheet total by the model of the Parent Bank	**18,108,558**

PROFIT AND LOSS STATEMENT in 000 RSD

Result of the Parent Bank	**924,700**
Reclassification for the effect of net change in impairment provision of loans related to subsidiaries (negative effect)	(230)
Reclassification for the effect of net change in provisions for losses on Off-Balance Sheet assets (negative effect)	(1,217)
Reclassified result of the Parent Bank	923,253

Statutory result of KB Banja Luka	**44,232**
Reclassification for the effect of change in impairment provision of loans relating to the Parent Bank (positive effect on the result)	303
Effect of differences in the application of internal and regulatory methodology for credit risks - calculation of impairment provision (positive effect)	3,204
Effect of applying internal methodology for credit risks - interest income for clients in stage 3 is not recognized in P&L according to regulator – termination of calculation	744
Elimination of income from the sale of tangible assets	(1,956)
Reclassified result of KB Banja Luka	**46,527**

Statutory result of KB Podgorica	**(182,104)**
Reclassification for the effect of change in impairment provision of loans related to the Parent Bank (negative effect on result)	(512)
Reclassified result KB Podgorica	**(182,616)**

6.2. Consolidation of Balance Sheet and Profit and Loss Statement

During the consolidation the elimination of all interrelationships in the Balance Sheet was performed in the amount of RDS 6,447,424 thousand (2020 RSD 7,578,111 thousand). Elimination of income from P&L was performed in amount of RSD 38,880 thousand (30.06. 2020 RSD 16,001 thousand), and the expenses in the amount of RSD 40,288 thousand (30.06. 2020 RSD 17,050 thousand).

Standalone reclassified Balance Sheets on 30.06.2021:

	in thousand dinars
KB Beograd	482,600,544
KB Podgorica	18,108,558
KB Banja Luka	32,630,406
KomBank INVEST	176,064
Total reclassified non-consolidated Balance Sheet	533,515,572

Balance Sheet on 30.06.2021

Total non-consolidated Balance Sheet	Consolidation amount of Balance Sheet	In thousand dinars Consolidated Balance Sheet
533,515,572	**6,447,424**	**527,068,148**
cash/liabilities	8,314	
loans/ liabilities	958,222	
stakes /capital	5,480,888	

Standalone reclassified P&L (before tax) 30.06.2021

	In thousand dinars
KB Beograd	786,478
KB Podgorica	(182,616)
KB Banja Luka	46,527
KomBank Invest	1,136
Total reclassified non-consolidated P&L (before tax)	651,526

P&L 30.06.2021

Total non-consolidated profit in the P&L (before tax)	Consolidation amount of P&L		In thousand dinars Consolidated profit (before tax)
	Income	**Expenses**	
651,526	**38,880**	**40,288**	**652,934**
Interest	7,492	7,492	
Fees	9,037	9,037	
Other income / expenses	126	126	
Exchange differences (reclassified in capital)	22,225	23,633	

	In thousand dinars
Consolidated gain before tax	652,934
Net gain based on deferred taxes	136,775
Consolidated gain after tax	789,709

Gain and Loss Based on Deferred Taxes

As of 30.06..2021, in the P&L the Group showed the net gain on the basis of effects of deferred taxes in the amount of RSD 136,775 thousand. The Parent Bank showed the net loss on this basis in amount of RSD 136,775 thousand (gain amounting to RSD 18,952 thousand and the loss amounting to RSD 46,177 thousand), KB Podgorica KB Banja Luka did not calculate deferred taxes that affect the income statement at the reporting date.

Profit Tax

Corporate Income Tax

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

The Parent Bank did not report income tax, due to the right to use the tax credit from previous years, and the dependent members did not calculate the tax liability for the date of June 30, 2021.

Balance Sheet 2020

In thousand dinars

	Total non-consolidated Balance Sheet	Consolidation amount of Balance Sheet	Consolidated Balance Sheet
	507,873,374	**7,578,111**	**500,295,263**
Cash/liabilities		5,549	
Loans /liabilities		2,091,674	
Stakes /capital		5,480,888	

Profit and Loss Statement 30.06.2020

In thousand dinars

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

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

A. BALANCE SHEET - CONSOLIDATED as of 30 June 2021

In thousand dinars

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and balances with the central bank	76,805,654	2,532,745	9,728,902	-	89,067,301
Securities	145,092,815	1,306,809	3,212,047	154,927	149,766,598
Loans and receivables from banks and other financial organisations	43,085,530	778,357	1,654,038	16,080	45,534,005
Loans and receivables from customers	195,450,279	12,156,342	16,893,736	-	224,500,357
Intangible assets	397,853	23,336	33,474	-	454,663
Property, plant and equipment	5,821,893	320,023	316,947	112	6,458,975
Investment property	1,950,289	73,083	198,584	-	2,221,956
Current tax assets	18,911	-	8,550	77	27,538
Deferred tax assets	-	-	-	2,484	2,484
Non-current assets held for sale and assets from discontinued operations	130,426	130,845	144,307	-	405,578
Other assets	8,084,687	465,612	76,162	2,232	8,628,693
Total Assets	**476,838,337**	**17,787,152**	**32,266,747**	**175,912**	**527,068,148**

A. BALANCE SHEET - CONSOLIDATED as of 30 June 2021

in thousand dinars

LIABILITIES	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities to banks, other financial organisations and central bank	1,772,079	266,065	3,874,830	-	5,912,974
Deposits and other financial liabilities to other customers	392,058,967	15,176,015	23,823,236	-	431,058,218
Provisions	3,340,103	124,478	43,196	15,459	3,523,236
Deferred tax liabilities	59,910	8,403	17,666	-	85,979
Other liabilities	7,345,877	168,624	370,437	1,730	7,886,668
Total liabilities	**404,576,936**	**15,743,585**	**28,129,365**	**17,189**	**448,467,075**
Capital					
Share capital and share premium	40,034,550	-	-	-	40,034,550
Accumulated result	4,667,691	(761,145)	412,100	17,720	4,336,366
Reserves	33,476,445	545,949	206,817	876	34,230,087
Non-controlling interest	-	-	70	-	70
Total capital	**78,178,686**	**(215,196)**	**618,987**	**18,596**	**78,601,073**
Total liabilities and equity	**482,755,622**	**15,528,389**	**28,748,352**	**35,785**	**527,068,148**

A. BALANCES SHEET – CONSOLIDATED as of 31 December 2020

In thousands dinars

	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
ASSETS					
Cash and assets held with central bank	80,045,107	1,911,252	4,935,711	-	86,892,070
Securities	153,776,323	1,265,605	3,244,162	152,566	158,438,656
Loans and receivables from banks and other financial organisations	17,301,332	607,317	940,455	16,379	18,865,483
Loans and receivables from customers	189,296,089	12,204,666	17,932,872	-	219,433,627
Intangible assets	510,669	29,266	38,478	-	578,413
Property, plant and equipment	6,045,330	352,977	344,748	144	6,743,199
Investment property	1,819,507	77,366	248,134	-	2,145,007
Current tax assets	12,237	-	7,347	77	19,661
Deferred tax assets	-	-	-	2,484	2,484
Non-current assets held for sale and assets from discontinued operations	130,426	138,179	102,058	-	370,663
Other assets	6,215,954	502,191	85,671	2,184	6,806,000
Total assets	**455,152,974**	**17,088,819**	**27,879,636**	**173,834**	**500,295,263**

A. BALANCE SHEET – CONSOLIDATED as of 31 December 2020

In thousand dinars

LIABILITIES	Komercijalna banka a.d., Beograd	Komercijalna banka a.d., Podgorica	Komercijalna banka a.d., Banja Luka	KomBank INVEST a.d., Beograd	Total
Deposits and other liabilities to banks, other financial organisations and central bank	3,733,731	286,632	4,075,827	-	8,096,190
Deposits and other liabilities to other customers	372,699,401	14,459,196	19,033,470	-	406,192,067
Provisions	2,528,051	110,585	42,251	15,459	2,696,346
Current tax liabilities	-	502	1,577	-	2,079
Deferred tax liabilities	147,400	8,332	20,841	-	176,573
Other liabilities	4,975,476	178,329	415,181	892	5,569,878
Total liabilities	**384,084,059**	**15,043,576**	**23,589,147**	**16,351**	**422,733,133**
Capital					
Share capital and share premium	40,034,550	-	-	-	40,034,550
Accumulated result	3,655,838	(495,652)	373,793	16,639	3,550,618
Reserves	33,286,592	462,246	227,233	821	33,976,892
Non-controlling interest	-	-	70	-	70
Total capital	**76,976,980**	**(33,406)**	**601,096**	**17,460**	**77,562,130**
Total liabilities and equity	**461,061,039**	**15,010,170**	**24,190,243**	**33,811**	**500,295,263**

B. PROFIT AND LOSS STATEMENT – CONSOLIDATED as of 30 June 2021

In thousand dinars

	Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Interest income	6,486,649	344,850	399,077	248	7,230,824
Interest expenses	(515,191)	(57,973)	(106,999)	-	(680,163)
Net interest income	**5,971,458**	**286,877**	**292,078**	**248**	**6,550,661**
Fee and commission income	3,438,032	108,134	141,751	12,717	3,700,634
Fee and commission expenses	(856,582)	(30,456)	(35,906)	(130)	(923,074)
Net fee and commission income	**2,581,450**	**77,678**	**105,845**	**12,587**	**2,777,560**
Net gain from change in fair value of financial instruments	1,364	-	-	916	2,280
Net gain from derecognition of financial instruments that are measured at fair value	129,754	-	-	10	129,764
Net income from exchange differences and effects of agreed currency clause	54,419	(15,330)	725	(6)	39,808
Net expenses from impairment of financial assets that are not measured at fair value through P&L	(854,970)	(167,848)	(92)	-	(1,022,910)
Other operating income	114,869	3,390	5,197	-	123,456
Total net operating income	**7,998,344**	**184,767**	**403,753**	**13,755**	**8,600,619**
Cost of salaries, salary allowances and other personal expenses	(2,372,498)	(165,585)	(168,442)	(7,713)	(2,714,238)
Depreciation costs	(467,552)	(44,168)	(56,469)	(31)	(568,220)
Other income	107,775	2,520	19,985	6	130,286
Other expenses	(4,472,087)	(171,984)	(147,854)	(3,588)	(4,795,513)
Profit before tax	**793,982**	**(194,450)**	**50,973**	**2,429**	**652,934**
Net profit on account of deferred taxes	136,775	-	-	-	136,775
Profit after tax	**930,757**	**(194,450)**	**50,973**	**2,429**	**789,709**

Within the stated consolidated profit, the profit that accrues to holders with no controlling right amounts to 1 thousand RSD.

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

In thousands of dinars

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

All reported consolidated profit belongs to the Parent Bank.

7. CAPITAL

7.1 Capital includes:

	30 June 2021	31 December 2020
	In thousand dinars	
Share capital	17,191,526	17,191,526
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	25,436,827	25,432,818
Revaluation reserves	8,793,263	8,544,078
Profit	5,720,563	4,812,004
Loss	(1,384,190)	(1,261,380)
Balance as at	**78,601,073**	**77,562,130**

Capital includes:

Structure of the capital — **In thousand RSD**

	30 June 2021			31 December 2020		
	Majority share	Non-controlling interest	Total	Majority share	Non-controlling interest	Total
Share capital	17,191,466	60	17,191,526	17,191,466	60	17,191,526
Share premium	22,843,084	-	22,843,084	22,843,084	-	22,843,084
Share capital	**40,034,550**	**60**	**40,034,610**	**40,034,550**	**60**	**40,034,610**
Profit	**5,720,556**	**7**	**5,720,563**	**4,811,998**	**6**	**4,812,004**
Loss	**(1,384,190)**	**-**	**(1,384,190)**	(1,261,380)	**-**	(1,261,380)
Reserves from profit and other reserves	25,436,824	3	25,436,827	25,432,814	4	25,432,818
Revaluation reserves (credit balance)	7,176,315	-	7,176,315	6,924,907	-	6,924,907
Translation reserves (Note 7.2)	1,616,948	-	1,616,948	1,619,171	-	1,619,171
Reserves	**34,230,087**	**3**	**34,230,090**	**33,976,892**	**4**	**33,976,896**
Capital	**78,601,003**	**70**	**78,601,073**	**77,562,060**	**70**	**77,562,130**

The share capital of the Parent Bank is formed from the initial deposits of the shareholders and subsequent issues of new shares. Shareholders have controlling rights over the Parent Bank (ordinary shareholders), as well as rights of share in the distribution of profits. As of 30 June 2021 the share capital of the Parent Bank amounts to RSD 17,191,466 thousand and includes 17,191,466 shares with the nominal value of RSD 1 thousand per share.

The share structure of the Parent Bank is given in the following table:

	Number of shares	
Types of shares	**30 June 2021**	**31 December 2020**
Ordinary shares	16,817,956	16,817,956
Priority shares	373,510	373,510
Balance as of date	**17,191,466**	**17,191,466**

Structure of Parent Bank's share capital – ordinary shares as of 30.06..2021 is as follows:

Name of the Shareholder	% of stake
NLB d.d. Ljubljana	88.28
OTP BANKA SRBIJA (custody account)	2.69
BDD M&V INVESTMENTS AD BEOGRAD	2.27
Jugobanka a.d., Beograd in bankruptcy	1.91
Kompanija Dunav osiguranje a.d., Beograd	1.73
OTP BANKA SRBIJA (custody account)	0.51
TEZORO BROKER AD	0.34
BDD M&V INVESTMENTS AD BEOGRAD (omnibus account)	0.28
KRIMINALISTIČKO-POLICIJSKA AKADEMIJA	0.20
TANDEM FINANCIAL a.d. Novi Sad	0.13
DUNAV RE AD	0.10
MERA INVEST DOO BEOGRAD	0.10
TEZORO BROKER AD	0.07
ERSTE BANK CUSTODY	0.07
PRIVATE INDIVIDUAL	0.07
KRUNA KOMERC D.O.O.	0.06
ELEKTRODISTRIBUCIJA SRBIJE DOO	0.05
Other	1.14
	100.00

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

In thousand dinars

	Cumulative exchange differences on stakes in subsidiaries	Exchange rate differences on intra-group transactions	Exchange rate differences from translating the P&L Statement result from average to the closing rate	Total
Balance on 1 January the previous year	1,486,395	81,917	51,141	1,619,453
Increase	(729)	445	2	(282)
Balance as of 31 December of previous year	1,485,666	82,362	51,143	1,619,171
Increase	(827)	(1,408)	12	(2,223)
Balance as of 30 June 2021	**1,484,839**	**80,954**	**51,155**	**1,616,948**

8. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET POSITIONS

In thousand dinars

	30 June 2021	31 December 2020
Business operations in the name and for the account of third parties	4,126,706	4,146,427
Future commitments undertaken	45,452,445	44,263,544
Receivables under repurchase agreements	1,175,660	1,175,802
Other off-balance sheet positions	478,462,910	484,744,960
Total	**529,217,721**	**534,330,733**

Internal relationship with Komercijalna banka a.d., Banja Luka on the basis of unused loans in the amount of RSD 2,351,320 thousand (EUR 20 million) was eliminated from future liabilities.

From other off-balance sheet items, the internal relationship that Komercijalna banka a.d. Banja Luka has with Komercijalna banka a.d. Beograd was eliminated.

8.1 Issued guarantees and letters of credit

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

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

	In thousand dinars	
	30 June 2021	31 December 2020
Payment guarantees	5,043,105	5,088,246
Performance guarantees	7,651,409	7,131,239
Letters of credit	99,592	169,229
Balance as of date	**12,794,106**	**12,388,714**

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

8.2 Structure of the commitments undertaken is as follows

	In thousand dinars	
	30 June 2021	31 December 2020
Unused part of the approved overdraft on payment and credit cards and overdrafts on current accounts	9,076,649	11,169,739
Irrevocable commitments undertaken for undrawn loans	22,856,829	20,191,910
Other irrevocable commitments	724,861	513,181
Balance as of date	**32,658,339**	**31,874,830**

9. RELATED PARTIES

NLB d.d. Ljubljana holds the biggest stake in voting shares of the Parent Bank, and it is the owner of 88.28% of Bank's ordinary shares. The Parent Bank has three subsidiaries: Komercijalna banka a.d. Podgorica, Komercijalna banka a.d. Banja Luka and KomBank INVEST a.d. Beograd.

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

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

Consolidated transactions with subsidiaries are shown in Note 6.

10. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date of the Parent Bank:

There were no significant events after the date of the reporting period that would require disclosure in the Notes to the financial statements for June 30, 2021.

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

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

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

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

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

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

There were no other significant events after the reporting period date which would require disclosure in the Notes to consolidated financial statements for 30 June 2021.

11. FOREIGN EXCHANGE RATES

The exchange rates determined at the interbank meeting of the foreign exchange market applied for the conversion of balance sheet items into dinars on June 30, 2021 and 2020 for certain major currencies are as follows:

	Official exchange rate of the National Bank of Serbia		Average exchange rate of the National Bank of Serbia	
	30.06.2021.	31.12.2020.	30.06.2021.	30.06.2020.
USD	98.7369	104.6329	-	-
EUR	117.5660	117.5760	117.5761	117.5746
CHF	107.1607	109.9252	-	-
BAM	60.1105	60.1157	60.1157	60.1150

In Belgrade,

On 24.08.2021

Persons responsible for preparation of the financial statements

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STATEMENT

We hereby state that, according to our best knowledge, the semi-annual consolidated financial statements as at 30.06.2021 have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company, inclusive of its companies that are included in the consolidated financial statements.

Persons responsible for the preparation of consolidated financial statements

Sanja Đeković	Dejan Janjatović
Executive Director for Finance and Accounting	Deputy Chief Executive Officer

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KOMERCIJALNA BANKA
NLB Group

STATEMENT

Consolidated financial statements of Komercijalna banka AD Beograd for the period 01.01.2020. until 30.06.2021. 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 the preparation of consolidated financial statements

Sanja Đeković	Dejan Janjatović
Executive Director for Finance and Accounting	Deputy Chief Executive Officer