KOMERCIJALNA BANKA AD BEOGRAD

CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
AND INDEPENDENT AUDITORS' REPORT

CONTENTS

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This is English translation of the Report originally issued in Serbian language (For management purposes only)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF KOMERCIJALNA BANKA A.D. BEOGRAD

Opinion

We have audited the consolidated financial statements of Komercijalna banka a.d. Beograd (the Group), which comprise the consolidated balance sheet as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Standards on Auditing applicable in the Republic of Serbia. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Adequacy of the loan loss provisions

This is a key audit matter as significant judgement is involved to determine the loan loss provisions. The use of different modelling techniques and assumptions could produce significantly different estimates of impairment of loans to customers. The carrying amount of loans to customers amounts to RSD 219,433,627 thousand (or 44% of total assets) as at 31 December 2020.

Key areas of judgement include the interpretation of requirements to determine impairment under application of IFRS 9, which is reflected in the Group's expected credit loss model, the identification of exposures with a significant increase in credit risk, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. industrial production index, EURIBOR rate, BELIBOR rate, unemployment)) as disclosed in Note 4.1 Risk management - Credit risk, and evaluation and assumptions used in the possible outcomes of individually assessed loans for impairment as well as any judgements around economic effects and outcomes of COVID 19 pandemic.

The possible outcomes are based on discounted cash flows for individually assessed loans and include judgement and complexity areas such as, impairment triggers, probabilities of relevant scenarios for cash flow forecasts and the cash flow forecasts themselves, including collateral realization.

For further information, refer to Note 3(j) - Summary of significant accounting policies, "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 and Note 4.1 - Risk management - Credit risk of the accompanying consolidated financial statements.

We assessed the design and tested the operating effectiveness of internal controls over collective impairments within the loan portfolios, as well as the impairment assessment processes for individually assessed loans.

We involved experts in the field of credit risk modeling for the review of IFRS 9 methodology and impairment models, as well as for the review of forward-looking information models, and information systems experts for the test of effectiveness of the IT general controls on the core system applications which support impairment calculations.

We assessed the modelling techniques and methodology against the requirements of IFRS 9. We also assessed the appropriateness of significant assumptions used in models for calculating the loan loss provision, including management overlay factors used to account for COVID 19 impact on the loan portfolio impairment.

We examined a sample of exposures and performed procedures to evaluate the timely identification of exposures with a significant increase in credit risk and classification of instruments in stages according to IFRS 9, with special focus on clients in industries negatively affected by COVID 19 pandemic. Our procedures included reassessment of the creditworthiness of clients and review of input parameters such as probability of default, days past due, watch-list triggers, or reprograms.

We also re-performed management's impairment calculation on a sample of collectively impaired loans for mathematical accuracy.

For individually impaired loans, our procedures included assessing the identification of loss events and testing of assumptions used in the models, including the forecasted future cash flows and the estimated value of underlying collaterals. For a sample of individually impaired loans, we understood the latest developments at the borrower and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation for mathematical accuracy. In addition, we tested key inputs to the impairment calculation including the expected future cash flows, their timing and valuation of collateral held, and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower.

We assessed the adequacy of the disclosures included in Note 3(j) - Summary of significant accounting policies, "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 and Note 4.1 - Risk management - Credit risk of the accompanying consolidated financial statements.

Other information included in the Group's Annual Business Report

Other information consists of the information included in the Annual business report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the preparation of other information in accordance with the legal requirements of the Republic of Serbia.

Our opinion on the consolidated financial statements does not cover the Other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with Law on Accounting of Republic of Serbia, in particular, whether the other information complies with the Law on Accounting of Republic of Serbia in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
2. the other information is prepared in accordance with requirements of the Law on Accounting of Republic of Serbia.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of management and Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Auditing Standards applicable in Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Auditing Standards applicable in Republic of Serbia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Danijela Mirković.

Belgrade, 15 March 2021

Danijela Mirković
Authorized Auditor
Ernst & Young d.o.o. Beograd

PREDUZEĆE ZA REVIZIJU
Ernst & Young
BEOGRAD

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2020
(Thousands of RSD)

	Note	2020	2019
Interest income	3c; 8	14,731,985	15,098,191
Interest expenses	3c; 3h; 8	(1,443,962)	(1,327,673)
Net interest gains		13,288,023	13,770,518
Income from fees and commissions	3d; 9	7,205,485	7,662,254
Expenses on fees and commissions	3d; 9	(1,938,963)	(1,935,130)
Net gains from fees and commissions		5,266,522	5,727,124
Net gains from changes in fair value of financial instruments	3e; 10	98,046	75,058
Net gains from derecognition of the financial instruments measured at fair value	3f; 11	174,399	353,502
Net exchange rate gains / (losses) and gains / (losses) from agreed currency clause	3b;12	17,980	44,240
Net income / (expenses) from reduction in impairment of financial assets not measured at fair value through income statement	3j;13	(1,264,236)	1,587,676
Net gains / (losses) from derecognition of the financial instruments measured at amortised cost	14	-	(579,933)
Other operating income	3g; 15	227,097	166,546
TOTAL NET OPERATING INCOME		17,807,831	21,144,731
Salaries, salary compensations and other personal expenses	3p; 16	(6,491,790)	(5,537,942)
Depreciation costs	3l; 3lj, 3h; 17	(1,174,588)	(1,193,480)
Other income	18	921,602	810,907
Other expenses	19	(6,784,601)	(7,497,888)
PROFIT BEFORE TAX		4,278,454	7,726,328
Profit tax	3i; 20	(7,309)	(14,088)
Gains from deferred taxes	3i; 20	122,101	1,488,290
Losses on deferred taxes	3i; 20	(1,391,735)	(800,665)
PROFIT AFTER TAX		3,001,511	8,399,865
RESULT FOR PERIOD - PROFIT		3,001,511	8,399,865
Profit belonging to a parent entity		3,001,510	8,399,863
Profit belonging to non-controlling owners		1	2
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	3u; 34.2	173	532
Diluted earnings per share (in dinars, without paras)	3u; 34.2	173	532

The accompanying notes on the following pages form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 15, 2021.

Signed on behalf of Komercijalna banka a.d., Beograd by:

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

Miroslav Perić, PhD	Vlastimir Vuković
Member of the Executive Board	Chief Executive Officer

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2020
(Thousands of RSD)

	Note	2020	2019
PROFIT FOR THE PERIOD		3,001,511	8,399,865
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	20	7,894	111,214
Actuarial gains	32	4,336	9
Actuarial losses	32	-	(12,780)
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	20	118,902	651,534
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	20	(863)	-
Components of other comprehensive income that may be reclassified to profit or loss:			
Positive / (negative) effects of change in value of debt instruments measured at fair value through other comprehensive income	34	(488,647)	2,460,710
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	34	(282)	(28,698)
Tax gains relating to other comprehensive income for the period	34	69,996	1,908
Tax losses relating to other comprehensive income for the period	34	(18,440)	(471,992)
Total positive / (negative) other comprehensive income		(307,104)	2,711,905
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD		2,694,407	11,111,770
Total positive comprehensive income for the period attributable to the parent entity		2,694,406	11,111,765
Total positive comprehensive income for the period attributable to non-controlling owners		1	5

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Signed on behalf of Komercijalna banka a.d., Beograd by:

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БЕОГРАД

Miroslav Perić, PhD	Vlastimir Vuković
Member of the Executive Board	Chief Executive Officer

CONSOLIDATED BALANCE SHEET
As at December 31, 2020
(Thousands of RSD)

	Note	31.12.2020	31.12.2019
ASSETS			
Cash and assets held with the central bank	3к; 21	86,892,070	76,654,402
Securities	3j; 22	158,438,656	144,479,431
Loans and receivables from banks and other financial organisations	3j; 23	18,865,483	26,990,004
Loans and receivables from clients	3j; 24	219,433,627	208,234,158
Intangible investments	3lj; 25	578,413	754,500
Property, plant and equipment	3l;3h 26	6,743,199	7,254,391
Investment property	3m; 27	2,145,007	2,202,616
Current tax assets	20	19,661	6,786
Deferred tax assets	20	2,484	1,076,255
Non-current assets held for sale and discontinued operations	28	370,663	500,740
Other assets	3j; 29	6,806,000	7,602,611
TOTAL ASSETS		500,295,263	475,755,894
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	3o; 30	8,096,190	8,318,606
Deposits and other financial liabilities to clients	3o; 31	406,192,067	370,987,710
Provisions	3p; 32	2,696,346	2,483,410
Current tax liabilities	20	2,079	2,673
Deferred tax liabilities	20	176,573	32,349
Other liabilities	3h;33	5,569,878	14,559,570
TOTAL LIABILITIES		422,733,133	396,384,318
EQUITY			
Share capital	3t; 34	40,034,550	40,034,550
Profit	34.1	4,811,998	9,981,896
Loss	34.1	(1,261,380)	(1,370,332)
Reserves	3t;34.1	33,976,892	30,725,392
Non-controlling participation	3t;34	70	70
TOTAL EQUITY		77,562,130	79,371,576
TOTAL LIABILITIES AND EQUITY		500,295,263	475,755,894

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form an integral part of these consolidated financial statements.

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Signed on behalf of Komercijalna banka a.d., Beograd by:

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БЕОГРАД

Miroslav Perić, PhD	Vlastimir Vuković
Member of the Executive Board	Chief Executive Officer

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2020 to December 31, 2020
(Thousands of RSD)

DESCRIPTION	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Revaluation reserves (debit balance)	Profit	Loss	Non-controlling interest	Total
Opening balance as at January 1, 2019	17,191,466	22,843,084	17,503,844	6,187,794	(257)	9,277,755	(1,481,701)	66	71,522,051
The adjusted opening balance as at January 1, 2019	17,191,466	22,843,084	17,503,844	6,187,794	(257)	9,277,755	(1,481,701)	66	71,522,051
Total positive other comprehensive income for the period	-	-	-	2,688,252	9	-	-	-	2,688,261
Profit for the current year	-	-	-	-	-	8,399,863	-	2	8,399,865
Distribution of profit – increase	-	-	4,347,844	-	-	-	-	-	4,347,844
Distribution of profit and/or coverage of losses – decrease	-	-	-	-	-	(4,451,668)	103,824	-	(4,347,844)
Dividend payments	-	-	-	-	-	(3,258,073)	-	-	(3,258,073)
Other – increase	-	-	-	-	-	22,366	-	2	22,368
Other – decrease	-	-	(2,094)	-	-	(8,347)	7,545	-	(2,896)
Total transactions with owners	-	-	4,345,750	-	-	(7,695,722)	111,369	2	(3,238,601)
Balance as at December 31, 2019	17,191,466	22,843,084	21,849,594	8,876,046	(248)	9,981,896	(1,370,332)	70	79,371,576

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2020 to December 31, 2020
(Thousands of RSD)

DESCRIPTION	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Revaluation reserves (debit balance)	Profit	Loss	Non-controlling interest	Total
Opening balance as at January 1, 2020	17,191,466	22,843,084	21,849,594	8,876,046	(248)	9,981,896	(1,370,332)	70	79,371,576
The adjusted opening balance as at January 1, 2020	17,191,466	22,843,084	21,849,594	8,876,046	(248)	9,981,896	(1,370,332)	70	79,371,576
Total positive other comprehensive income for the period	-	-	-	13	248	-	-	-	261
Total negative other comprehensive income for the period	-	-	-	(331,981)	-	-	-	-	(331,981)
Profit for the current year	-	-	-	-	-	3,001,510	-	1	3,001,511
Distribution of profit – increase	-	-	3,583,264	-	-		-	-	3,583,264
Distribution of profit and/or coverage of losses – decrease	-	-	-	-	-	(3,692,069)	108,805	-	(3,583,264)
Dividend payments	-	-	-	-	-	(4,477,879)	-	-	(4,477,879)
Other – increase	-	-	-	-	-	24,580	-	-	24,580
Other – decrease	-	-	(44)	-	-	(26,040)	147	(1)	(25,938)
Total transactions with owners	-	-	3,583,220	-	-	(8,171,408)	108,952	(1)	(4,479,237)
Balance as at December 31, 2020	17,191,466	22,843,084	25,432,814	8,544,078	-	4,811,998	(1,261,380)	70	77,562,130

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 15, 2021.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

Vlastimir Vuković
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2020 to December 31, 2020
(Thousands of RSD)

	2020	2019
A. CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	21,581,613	24,794,516
Interest	13,604,447	15,747,810
Fees	7,284,436	7,710,913
Other operating income	683,338	1,324,658
Dividends and profit sharing	9,392	11,135
Cash outflow from operating activities	(14,013,944)	(14,457,466)
Interest	(1,265,765)	(1,195,178)
Fees	(1,978,998)	(1,868,018)
Gross salaries, salary compensations and other personal expenses	(5,122,271)	(4,978,046)
Taxes, contributions and other duties charged to income	(978,253)	(1,007,715)
Other operating expenses	(4,668,657)	(5,408,509)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	7,567,669	10,337,050
Decrease in financial assets and increase in financial liabilities	36,835,517	21,850,450
Decrease in receivables under securities and other financial assets not intended for investment	2,178,771	-
Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	34,656,746	21,850,450
Increase in financial assets and decrease in financial liabilities	(3,650,257)	(31,609,298)
Increase in loans and receivables from banks, other financial organisations, central bank and clients	(3,650,257)	(26,312,607)
Increase in receivables under securities and other financial assets not intended for investment	-	(5,296,691)
Net cash inflow from operating activities before profit tax	40,752,929	578,202
Profit tax paid	(20,776)	(27,433)
Dividend payment	(14,239,507)	-
Net cash inflow from operating activities	26,492,646	550,769

CONSOLIDATED STATEMENT OF CASH FLOWS
For period from January 1, 2020 to December 31, 2020
(Thousands of RSD)

	2020	2019
B. CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	21,086,961	50,268,438
Investment in investment securities	21,077,661	50,266,390
Sale of intangible investments, property, plant and equipment	2,629	2,048
Sale of investment property	6,671	-
Cash outflow from investing activities	(39,249,471)	(49,745,542)
Investment into investment securities	(39,063,178)	(49,163,453)
Purchase of intangible investments, property, plant and equipment	(186,293)	(582,089)
Net cash inflow / (outflow) from investing activities	(18,162,510)	522,896
C. CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	333,140,560	97,161,351
Loans taken	333,140,560	97,161,351
Cash outflow from financing activities	(331,904,157)	(98,353,909)
Loans taken	(331,360,621)	(97,870,436)
Other outflow from financing activities	(543,536)	(483,473)
Net cash inflow / (outflow) from financing activities	1,236,403	(1,192,558)
TOTAL CASH INFLOW	412,644,651	194,074,755
TOTAL CASH OUTFLOW	(403,078,112)	(194,193,648)
NET INCREASE / (DECREASE) IN CASH	9,566,539	(118,893)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	44,519,620	44,530,135
EXCHANGE RATE GAINS	1,542,046	1,386,966
EXCHANGE RATE LOSSES	(1,573,093)	(1,278,588)
CASH AND CASH EQUIVALENTS AT END-PERIOD	54,055,112	44,519,620

The accompanying notes on the following pages
form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 15, 2021.

Signed on behalf of Komercijalna banka a.d., Beograd by:

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

Miroslav Perić, PhD
Member of the Executive Board

Vlastimir Vuković
Chief Executive Officer

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1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

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

Control over the Parent bank has the following entity:

NLB d.d. Ljubljana, Slovenia	83.23%

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

The parent bank has subsidiaries with ownership participation:
- 100% - Komercijalna banka a.d., Podgorica, Montenegro
- 100% - UCITS Fund Management Company KomBank INVEST a.d., Belgrade, Serbia
- 99.998% - Komercijalna banka a.d., Banja Luka, Bosnia and Herzegovina.

The minority owner in Komercijalna banka ad Banja Luka, with 0.002% is the Nova Ljubljanska banka d.d. Ljubljana.

Consolidated financial statements and notes to the consolidated financial statements are the data of the Parent Bank, Komercijalna Banka ad, Podgorica, Komercijalna Banka ad, Banja Luka and KomBank INVEST ad Investment Company, Belgrade (hereinafter "Group").

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

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

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

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

On December 31, 2020, the Group consists of: the head office and the headquarters of the Home Bank in Belgrade, at St. Sava Street no. 14; the headquarters of Komercijalna banka ad, Podgorica in Podgorica – Cetinjska 11, Business Centre Capital Plaza; headquarters of Komercijalna banka ad, Banja Luka in Banja Luka - Jevrejska street no. 69; the head office of the UCITS Fund Management Company KomBank INVEST AD, Belgrade, Belgrade, Kralja Petra br.19; 6 business centres, 3 sectors that work with small and medium enterprises 20 branches and 213 sub-branches in the territory of Serbia, Montenegro and Bosnia and Herzegovina (2019:6 business centres, 20 branches and 213 sub-branches).

As at December 31, 2020 the Group had 2,985 employees, and on December 31, 2019 had 3,056 employees.

2. BASIS FOR FOR PREPARATION AND PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis for preparation and presentation of consolidated financial statements

The Group's consolidated financial statements for year ended December 31, 2020 were compiled in accordance with International Financial Reporting Standards (IFRS).

The attached consolidated financial statements are presented in the format prescribed by the Decision on the Forms and Contents of Positions in the Forms of the Financial Statements for Banks ("Official Gazette of the Republic of Serbia" No. 101/2017, 38/2018, 103/2018).

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

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

During 2020, the Group members kept their accounts and compiled individual financial statements in accordance with local legal regulations, other regulations based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as well as regulations of competent central banks and regulatory body. The individual financial statements have been audited by external auditors, in accordance with local regulations.

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

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

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

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

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2020:

- Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. It is not expected that the requirements of this standard will have significant effect on Group’s financial statements.

- IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. It is not expected that the requirements of this standard will have significant effect on Group’s financial statements.

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of ‘material’ (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, ’Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity’. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. It is not expected that the requirements of this standard will have significant effect on Group’s financial statements.

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

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

- Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). It is not expected that the requirements of this standard will have significant effect on Group’s financial statements.

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

- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Subsidiaries and Joint Ventures : Sale or Contribution of Assets between Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Group’s financial statements.

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The IASB has issued an exposure draft to defer the effective date to 1 January 2023. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU It is not expected that the requirements of this standard will have significant effect on Group’s financial statements.

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

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

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

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- Annual Improvements make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

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

➢ IFRS 16 Leasing - Covid-19 Related Lease Concessions (Amendment)

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

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

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

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

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

➢ Reform of the Reference Interest Rate Reform - Phase 2 - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments

In August 2020, the IASB announced Reform of Reference Interest Rates - Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, concluding its work in response to the reform of the IBOR. The amendments provide temporary relief that addresses the effects of financial reporting when the interbank offered rate (IBOR) is replaced by an alternative near risk-free interest rate (RFR). In particular, the amendments provide for a practical exception when calculating changes in the basis for determining the contractual cash flows of financial assets and liabilities, in order to require the adjustment of the effective interest rate, equivalent to the movement of the market interest rate. Also, the amendments introduce facilities for terminating a hedging relationship, including a temporary exemption from the need to meet a separately identifiable requirement when an RFR instrument is designated for a hedging risk component. Furthermore, the amendments to IFRS 4 are designed to enable insurance companies that continue to apply IAS 39 to receive the same benefits as those provided for in the amendments to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures that enable users of financial statements to understand the effects of reference interest rate reform on financial instruments and entity risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021, with the possibility of earlier application. When the application is retrospective, the entity is not required to modify data from prior periods. These changes have not yet been approved by the EU. The requirements of this standard are not expected to have a material impact on the Group's financial statements.

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

2.4. Basis of accounting

The coronavirus pandemic – COVID-19

Parent bank

Following the outbreak of the coronavirus pandemic - COVID-19 (hereinafter: coronavirus) across the World and Europe, which was originally discovered in December 2019 in China and continued to spread across the Europe and the rest of the world since January 2020, and arrived in Serbia on March 6, 2020, the Bank, as an accountable legal entity, took all necessary measures with the aim of protecting its employees, clients, creditors and business partners. The measures were taken to ensure safe working conditions for the Bank, following the recommendations of the Serbian public health institutions, as well as measures set by the Serbian government that enabled the Bank's business activities to be conducted smoothly.

The course of the coronavirus is unpredictable, so a major challenge for the Bank is predicting its implications on economic and business performance, which may result in judgements and assumptions that will require revisions. Also, the uncertainty relates to a set of state measures for containing the spreading of the virus, which have already been taken and will be taken in the future. The measures may affect the operations of the entire Serbian economy and the Bank's operations as a whole.

According to preliminary assessments of the Bank's management, the newly discovered pandemic could a in particular case affect the expected revenues on one hand, and potential increase in expenses, on the other, loan production, quuality of the credit portfolio, collaterals, impairment allowance, due to the reduced ability of debtors to repay their liabilities, especially in industries such as tourism, catering, transport, oil&gas industry and more. Despite the pandemic, the Bank's liquidity is high and stable, and the capital adequacy is at a much higher level than the legally prescribed limit.

In accordance with the Decision on Temporary Measures for Preserving Financial System Stability of the National Bank of Serbia from March 17, 2020, which regulates the measures and activities that the Bank is obliged to implement in the conditions caused by the COVID-19 virus pandemic, in order to preserve the stability of the financial system in the Republic of Serbia, the Bank offered a payment holiday (moratorium) to debtors on the basis of loans, guarantees, credentials, overdrafts and other credit products for a period of at least 90 days, starting from March 31, 2020.

Upon the expiration of the conditions of the Moratorium, which were related to the payment holiday for clients' liabilities, the Bank continued its activities of regular loan collection. Attribution of the regular interest to the main debt was made with an extension of the repayment period, for the number of annuities covered by the moratorium. Actions relating to the terms of the settlement and collection of loans were carried out by the Bank in accordance with the NBS Decision. This also applies to all other obligations of clients on the basis of credit products to which the Moratorium was previously applied.

Also, in order to ensure dinar and foreign exchange liquidity, the NBS introduced auctions after the introduction of the state of emergency, where it conducts swap and repo transactions with commercial banks. At swap auctions, the NBS buys and sells foreign currency, and buys state securities from banks at repo auctions. The Bank has a significant amount of securities that are highly marketable as a secondary liquidity reserve, given the yield they carry. Based on the above, it can be concluded that, although reduced liquidity of the Bank could be expected with the introduced moratorium on loans, the liquidity of the Bank is still significantly above requlatory requirements.

In accordance with the new NBS Decision on temporary measures to mitigate the consequences of the COVID-19 pandemic in order to preserve the stability of the financial system, which came into force on July 28, 2020, the Bank has once again offered to clients payment holiday for obligations (moratorium) on loans, credit cards and overdrafts in the current account, within three days after this NBS Decision came into force, i.e. July 31, 2020, by announcing the offer on the Bank's website, with which it is considered that the offer has been submitted to all users.

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

2.4. Basis of accounting (continued)

If the debtor does not reject the offer for the application of the moratorium within 10 days from the date of the announcement of this notice on the Bank's website, which can also be done subsequently, the moratorium will apply to liabilities which are due starting from August 1, 2020 to September 30, 2020 including outstanding liabilities due in month of July 2020.

For customers who decline the moratorium, the collection of overdue monthly receivables are charged in the amount from the existing repayment plan without calculating default interest.
Starting from October 2020, regular loan repayments continued.

In accordance with the Decision of the National Bank of Serbia on the second moratorium, the calculated interest during the moratorium is evenly distributed over the newly determined loan repayment period, without accrual of interest on the principal debt with extension of the repayment period for the number of annuities or deferred principal covered by the additional moratorium.

In addition, in accordance with the new instruction of the NBS, regarding the repayment of obligations due during the first moratorium to harmonize the effects of the first moratorium with the effects of the second moratorium, the Bank harmonized the calculation of interest so that even the first moratorium does not accrue regularly calculated interest, but it is evenly distributed in the remaining period of the loan.

In accordance with the above, the Bank determined the amount of regular contracted interest under the first moratorium, reduced the remaining debt (outstanding principal) by the amount and evenly distributed it over the remaining repayment period (without interest calculation on interest). Additionally, the Bank has reduced the amount of interest by the amount of accrued interest on interest for the period from the date of accrual in the first moratorium to the last interest in the second moratorium.

Pursuant to the Decision of the NBS on temporary measures for banks in order to adequately manage credit risk in the conditions of COVID-19, dated 15 December 2020, the Bank will grant further relief in repayment of obligations (loans, credit cards and allowed overdrafts) to debtors: individuals, farmers, entrepreneurs and companies, based on the debtor's request if all the prescribed conditions are met:

1. if the debtor is not able to settle the obligations towards the Bank or if he may have difficulties in settling the obligations towards the Bank if one of the conditions prescribed by the Decision is met separately
    - for private individual debtors,
    - for a agriculture, entrepreneurs or companies
2. if the debtor as at 29 February 2020, as well as 12 months before, he had no liabilities in the status of outstanding liabilities for more than 90 days
3. If the debtor as at 29 February 2020, as well as 12 months before the year, there is not a single claim classified as problematic

Subsidiary Banks acted in accordance with the relevant measures introduced in the countries in which they operate in the conditions caused by the pandemic, respecting the requirements of local regulators.

At the date of preparation of these consolidated financial statements, the Group meets its obligations as they fall due, and therefore continues to apply the going concern principle as the accounting basis for preparing the consolidated financial statements.

3. OVERVIEW OF BASIC ACCOUNTING POLICIES

(a) Consolidation

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

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

In order to prepare Consolidated Income Statement and the Consolidated Cash Flow Statement reclassified forms of subsidiaries' standalone Profit and Loss Statementand Cash Flow Statement were recalculated using the average exchange rate in the Republic of Serbia for 2020 of 117.5780 for one EUR and 60.1167 for one BAM. For other financial statements (balance sheet, other comprehensive income and statement of changes in equity) recalculation was done using the closing exchange rate on the balance sheet date of 117.5802 for one EUR or 60.1178 for one BAM.

(b) Conversion of foreign exchange amounts

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

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

The most important currencies used in the conversion of balance sheet items denominated in foreign currency, as determined by the National Bank of Serbia, were the following:

In RSD

	December 31, 2020	December 31, 2019
USD	95.6637	104.9186
EUR	117.5802	117.5928
CHF	108.4388	108.4004
BAM	60.1178	60.1242

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(c) Interest

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

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

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

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

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

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

(d) Fees and commissions

Income from fees and commissions and expense, which are an integral part of the effective interest rate of a financial asset or liability, are included in the determination of the effective interest rate. Other fees are accrued and a proportional part is recorded as income for the current period.

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

Other fees and commissions are mainly related to fees based on transactions and services performed and are recorded at the moment of receiving the service.

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

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

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(g) Dividends

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

(h) Leasing

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

Group as leasee

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

(i) Right of use assets

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

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

Right of use assets are amortized at a rate ranging from 92.31% to 6.70% annually, depending on the contractual right to use the asset. The right to use the assets is presented in Note 26 - Property, plant and equipment and are subject to impairment in line with the Group's policy as described in Note - Property and Equipment.

(ii) Leasing liabilities

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

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

(ii) Leasing liabilities (continued)

For the first application of IFRS 16 in the Parent Bank, the right to use the lease asset is generally measured in the amount of the lease liability, using an average incremental borrowing rate of 0.3324% to 2.4310% for EUR and in the range of 2.8660% to 4.1253% for RSD. In Parent Bank, during 2019 and 2020 the incremental borrowing rate did not have large variations. In the last quarter 2019, rates ranged from 0.2395% to 3.36732 for EUR and 1.23850 to 4.3866 for RSD, and during 2020, the incremental borrowing rate of the Parent Bank ranged from 0.2305% to 3.1000 for EUR and 0.47950 to 4.95119 for RSD.

At Komercijalna Banka AD Banja Luka, when applying IFRS 16 for the first time, right of use assets was generally measured in the amount of lease liabilities, using an average incremental borrowing rate of 3.2%. Effect of IFRS application on January 1, 2019 relates to short-term liabilities. During 2019, the incremental borrowing rate ranged from 2.6% to 3.6% for BAM and during 2020 ranged from 2.6% to 3.6% for BAM.

At Komercijalna Banka AD Podgorica, during 2019, the incremental borrowing rate ranged from 2.143% for EUR and during 2020, ranged from 2.143% for EUR.

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

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

Group as a leasor

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

(i) Tax expense

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

(i) Current Profit tax

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(i) Tax expense (continued)

(ii) Deferred taxes

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

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

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

(iii) Other taxes and contributions

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

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

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

Financial assets

A financial asset is any asset that is:

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Financial liability

A financial liability is any liability that is:
- a contractual obligation to deliver cash or another financial asset to another entity; or
- a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity;

Principles of measurement of financial instruments

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

Financial assets

The Group assesses the objectives of the business model for managing financial assets at the portfolio level, since such an assessment reflects, in the best way, the way in which business operations are managed and the manner in which management reports.

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

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

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

Financial assets can be classified into the following categories:

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

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

Classification and measurement

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

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

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

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

- the goal of a business model of holding a financial asset is the collection of contracted cash flows and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and are not indicated as FVTPL:

- The goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

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

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

IFRS requires that all financial assets, other than derivatives and equity instruments, be analysed through a combination of the business model of managing a financial asset from one, and the characteristics of contracted cash flows on the other side.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Classification and measurement (continued)

The Group has started the analyses of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered.

Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

In assessing whether the contractual cash flows represent solely the payment of principal and interest, the Group has reviewed the contractual terms of financial instruments and whether they contain stipulations that could change the time or amount of contracted cash flows, which would result in fair valuation of instruments. The analysis concluded that there are no credit products of the Bank whose contractual terms and conditions do not lead to cash flows that represent only payments of principal and interest on the principal balance at certain dates, which would require fair value valuation.

Financial liabilities

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

The Group does not have financial liabilities designated as FVTPL.

Impairment of financial assets

The IFRS 9 replaces IAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

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

Stage 1

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Impairment of financial assets (continued)

Stage 2

All financial instruments in which significant increase in credit risk has been realized are classified in stage 2, and impairment allowance are calculated on the basis of expected losses for the entire lifetime of the instrument.
The Group is considering whether there is a significant increase in credit risk by comparing the life probability of probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a significant increase in credit risk is considered to be days past due of 31 to 90 days of repayment, customer restructuring, and client being on the watch list.

Stage 3

Financial instruments are included in stage 3, where there is objective evidence of impairment and there is no change in the treatment of loans classified in that stage, apart from the fact that multiple collection scenarios were introduced. The impairment calculation on an individual basis will continue on the same principle.

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

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

“POCI "

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

(iii) Derecognition

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

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

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

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

(iiii) Modifications

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

As of December 31, 2020 the Parent Bank recognized modification losses arising on the modification of loan receivables in the net amount of RSD 342,338 thousand, which is related to the effects of Moratoria 1 and 2 on the repayment of credit obligations of debtors, applied in time of pandemic caused by the COVID-19. In later accounting periods, credit risk analysis and impairment recording will be performed on the modified financial asset, while the determined modification loss recorded in the Balance sheet will be transferred to the interest income account using the effective interest rate method.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

(iiii) Modifications (continued)

The Parent Bank applied October 1, 2020 as the cut-off date for the calculation of the modification according to moratoriums 1 and 2 from 2020, having in mind:

- That clients, who accepted moratorium 2, had the opportunity to state at the end of the moratorium which payment methods they chose (deferral of principal, interest and principal or payment of due obligations without delay) so that new annuity plans were formed after 30 September.
- That the need to calculate the modification for clients who accepted moratorium 1 arose after additional instructions from the regulator that the annuity plans of clients who accepted moratorium 1 should be adjusted in such a way as to exclude interest capitalization. This also resulted in the correction of annuity plans after September 30.

(iiiii) Netting

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

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

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

(k) Cash and cash equivalents

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

(l) Property and equipment

(i) Recognition and measurement

Initial measurement of property and equipment is done at cost.

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

(ii) Subsequent measurement

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(l) Property and equipment (continued)

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

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

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

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

(iii) Depreciation

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

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

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	3 – 15	6.70%-33.34%
Investments in other fixed assets	1 – 23.5	4.25%-86.20%
Leased fixed assets	1.1-14.11	6.70%-92.31%

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(lj) Intangible assets

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

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

Amortization is presented in the profit and loss statement in equal annual amounts during the estimated useful lives of the item of intangible assets, since it thus best reflects the expected consumption of the useful economic value contained in the asset. Estimated useful lives of non-material investments is 2 to 10 years, i.e. amortization rates range from 10.00% to 50.00%.

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

(m) Investment property

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

Initial valuation of investment property is carried out at cost. The cost of the purchased investment property includes its purchase price and all expenses directly attributable to the acquisition of the asset.
For the subsequent evaluation of investment property, the Group members use the cost model, i.e. investment property is measured at cost less accumulated amortization and impairment losses.

Estimated lifetime of investment property is 40 years, and depreciation is calculated at a rate of 2.50%. Depreciation is presented in the profit and loss statement in equal annual amounts during the estimated useful lifes of the given real estate item, since this way best reflects the expected consumption of the useful economic value contained in the asset.

(n) Impairment of non-financial assets

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

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

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(o) Deposits, loans and subordinated liabilities

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

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

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

(p) Provisions

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

(r) Empolyee benefits

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

In accordance with the Labour Law, members of the Group are obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at 31 December 2020, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in Note 32.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(s) Financial guarantees

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

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

(t) Capital and reserves

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

The Group's capital was formed from the investments made by the founders of the Parent bank and the minority founder of Komercijalna banka ad, Banja Luka in cash and non-cash form. The founder may not withdraw funds invested in the Group's capital.

(u) Earnings per share

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

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

(v) Segment reporting

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

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

When determining the operational segments, the following were used:

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

4. RISK MANAGEMENT

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

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

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

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

Recognizing the changes in the regulations of the National Bank of Serbia and the need to further improve the risk management process, recommendations of the external auditor, as well as new situation caused by the COVID-19 pandemic, in 2020 the Group made appropriate changes to internal acts governing risk management.

Risk Management System

The risk management system is defined by the following acts:

- Risk Management Strategy and Strategy and Capital Management Plan;
- Risk management policies;
- Risk management procedures;
- Methodologies for managing individual risks;
- Other acts.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The risk management strategy defines:
- Long-term goals, determined by the Groups's business policy and strategy, as well as the risk and risk tolerance set in line with those goals;
- Basic principles of risk transfer and management;
- Basic principles of the internal assessment of the Group's capital adequacy;
- Overview and definitions of all risks to which the Group is or may be exposed.

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Group.

The Banking Group has identified the basic principles of risk management in order to fulfil its long-term goals:
- Organization of the business of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the Group's regular business activities;
- Comprehensive risk management;
- Effectiveness of risk management;
- Cyclical risk management;
- Developing risk management as a strategic commitment;
- Risk management is part of the business culture.

The principles of managing bad assets and risky placements include:
- Active risk management;
- Preventive measures and activities aimed at minimizing further deterioration in asset quality;
- Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
- Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
- Assessment of the borrower's financial condition;
- A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
- Segregation of bad assets;
- Principle of materiality in defining possible measures;
- Increased frequency of monitoring the value of collateral and the funds obtained from collection;
- Organizational separation of the Sector for Prevention and Management of Risky Placements;
- Involvement in corporate governance and risk management indicators for monitoring bad assets;
- Transparent reporting.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

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

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

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

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

Jurisdictions

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

The *Executive Board* is responsible and accountable for the implementation of the risk management strategy and strategy and the capital management strategy by adopting risk management procedures (i.e. identifying, measuring and assessing risks) and ensuring their implementation and reporting to the Board of Directors in relation to those activities. Also, the Executive Board analyses the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides (with the prior approval of the Board of Directors) of any increase in the Group's exposure to a related parties and report to Board of Directors about mentioned.

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

4. RISK MANAGEMENT (continued)

Jurisdictions (continued)

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

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

The *Risk management function* of the parent Bank defines and proposes to adopt the strategy, policies, procedures and methodology of risk management, identifies, measures, mitigates, monitors and controls and reports on the risks to which the parent Bank and the Group are exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the banking group.

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

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

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

Risk management process

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

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

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

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

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

4. RISK MANAGEMENT (continued)

Types of risk

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

4.1. Credit risk

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

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

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

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

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

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

Since the Bank became a member of the NLB Group at the end of the year, in the following period, additional adjustments will be made to the placement approval process with the established system at the level of the NLB Banking Group.

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The basic principles of credit risk management are:

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

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

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

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

In order to adequately and efficiently manage the risks they are exposed to in their operations, the Parent bank and Group members also respect the principles prescribed by the regulations of their Central Banks, which require the classification of each placements on the basis of the prescribed framework and the calculation of the reserve for estimated losses.

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

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

The basic techniques of credit risk mitigation are:

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

IFRS 9 Financial instruments

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

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

Since the Parent Bank and its subsidiaries became a member of the NLB Group at the end of the year, in the following period, possible additional adjustments of impairment methodologies with the established policies at the level of the NLB Banking Group will be made.

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 by amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

Equity instruments, in entities other than subsidiaries that are not held for trading, are classified as assets whose value is measured at fair value through other 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's members (for assets not available immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

Identification of problematic and restructured receivables

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

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

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

- changes in the contractual conditions for repayment of problematic receivables or which, in the absence of the above mentioned changes, would be classified as problematic receivables,

- a change in the contractual conditions for the repayment of receivables leading to total or partial write-off in a material amount,

- the Group members activated the contractual restructuring clauses on the basis of which the terms of repayment change due to occurrence of certain events (embedded clauses) against the debtor from which the receivable has already been classified into a group of problematic receivables or would have been so classified if those clauses were not activated,

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

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

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

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

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

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

As at December 31, 2020, due to the application of moratoriums 1 and 2, which were applied in accordance with the decisions of the National Bank of Serbia on temporary measures for banks to mitigate the effects of the COVID-19 virus pandemic in order to preserve the financial stability of the financial system, the Parent Bank recognized modification loss of RSD 342 million due to the delay in payment of interest calculated during the duration of both or one moratorium until the extended maturity of financial instruments, which referred to the duration of the moratorium. Moratorium 1 and 2, depending on the client's choice, could last from March to September 2020. At the end of 2020, additional regulations of the National Bank of Serbia came into force, which allows clients an additional grace period in cases of meeting defined criteria that indicate that the client is affected by the COVID-19 pandemic.

Komercijalna banka ad Banja Luka and Komercijalna banka ad Podgorica also applied moratorium in accordance with the regulations of their central banks in order to mitigate the consequences of the COVID-19.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

Risk of asset quality change

The quality of the Group's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the debtor. The rating scale contains five risk categories, divided into 19 sub-categories. Different exposures to the same debtor define the same rating category, regardless of the specificity of the different types of loans.

The Group uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities.

A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Group (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitored (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4D, 4DD, and 5). Risk Category 4 is divided into three sub-categories: 4+, 4 and 4- - Non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Risk of asset quality change – impairment of assets

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

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

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

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

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

Individual and Group Assessment at Stage 3

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Individual assessment

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment (continued)

The Group considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, overtime of over 30 days, and the like).
In 2020, members of the Group have improved the Methodology for assessing of impairment for balance sheet assets and probable loss on off-balance sheet items by introducing the possibility of inclusion of management overlay factor in calculation of impairment, or developing and implementing a number of possible scenarios, in order to adequately include the estimated effects that the COVID-19 pandemic has on impairments.

During 2020, the Group's members improved the impairment Methodology of on-balance sheet assets and probable loss on off-balance sheet items for the purpose of calculation and allocation an additional protective tier of impairment, or elaboration and application of a larger number of possible scenarios in order to adequately include the estimated COVID-19 pandemic effects on credit risk impairment.

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

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

PD represents an estimation of the probability of default in a given period of time. Failure to fulfil obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Group is still exposed. Based on historical data, the group calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...).

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

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

Macroeconomic factors used in the impairment process

As part of the process of annual drafting of the Strategy and Business Plan, individual members of the Group project the values of macroeconomic factors for the period of three subsequent years, respecting the characteristics of the markets in which they operate. When defining macroeconomic assumptions, group members use a set of different relevant external sources, as well as internal assessments.

Komercijalna Banka ad Beograd

Following the suspension of the state of emergency, imposed due to the new circumstances caused by the COVID-19 pandemic, and the partially improved health situation at a given time, the Parent Bank adjusted its credit risk parameters in June 2020 based on macroeconomic projections due to the estimated effects of the COVID-19 pandemic (the IMF used a projection of the GDP growth rate, which has been revised from the expected 4% to a decline of 1.5% in 2020, with a presumed recovery by the end of 2021).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

According to the preliminary estimate of Statistical Office of the Republic of Serbia (SORS), in 2020, Serbia recorded a decline in GDP of 1.1%. According to the assessment of the National Bank of Serbia, the decline came from the service sectors most severely affected by the pandemic (tourism, catering and traffic), while construction recorded a minimal decline. The projection of the National Bank of Serbia for 2021 is a GDP growth of 6.0% with symmetrical risks, where the positive risks come from the domestic and the negative from the international environment. The economic policy measures adopted during 2020 (5.8 billion euros, about 12.5% of GDP) managed to limit the effect of the crisis, as well as sustainable growth of about 4% in the medium term. Inflation in December 2020 was 1.3% year-on-year, while average year-on-year inflation in 2020 was 1.6%. Low inflationary pressures are also indicated by core inflation of 2.1% in December 2020. The forecast of the National Bank of Serbia is that inflation will move within the lower limit of the target range in 2021. The forecast of the National Bank of Serbia is that inflation will move within the lower limit of the target range in 2021. In the medium term, disinflationary pressures prevail. According to the assessment of the National Bank of Serbia, the risks of the projection are symmetrical, and the uncertainty is still mainly related to trends in the international environment, global trade and economic growth (primarily the Eurozone) and others. The movement of inflation will also depend on the speed of recovery of domestic demand and regulated prices.
In accordance with the above mentioned, in the rebalancing of the Parent bank's Strategy and Business Plan for the upcoming period , the combined shape of letters V and U has been assumed, so that the effects, from the aspect of credit risk, are mostly realized during 2021 (further deepening of the crisis and the manifestation of the effects of the recession), with the expected slight recovery in 2022, which would continue in 2023. This also affected the projected level of impairment, especially on a group basis, but also the revision of expectations in the area of collection of risky placements.

Presented below is detailed overview of macroeconomic factors which have shown statistically confirmed links to default rates, and concequently with expected credit losses as of December31, 2020 and December 31, 2019, with projected values used in each of the three scenarios (realistic, pessimistic and optimistic).

Projection of macroeconomic factors as at December 31, 2020

Macroeconomic factor	ECL scenario	Multiplier	2021	2022	2023
Industrial production index					
	Optimistic scenario	10	106.20	104.30	104.30
	Realistic scenaio	80	105.50	103.50	103.50
	Pessimistic scenario	10	102.90	102.90	102.50
6M Euribor (%)					
	Optimistic scenario	10	-0..35	-0.30	-0.15
	Realistic scenaio	80	-0.40	-0.35	-0.25
	Pessimistic scenario	10	-0.45	-0.40	-0.35
6M Belibor (%)					
	Optimistic scenario	10	0.95	0.95	1.20
	Realistic scenaio	80	1.20	1.20	1.45
	Pessimistic scenario	10	1.45	1.45	1.70
Number of unemployed persons (in thousands)					
	Optimistic scenario	10	442	418	394
	Realistic scenaio	80	491	465	438
	Pessimistic scenario	10	540	511	482

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Projection of macroeconomic factors as at 31 December 2019

Macroeconomic factor	ECL scenario	Multiplier	2020	2021	2022
		%	%	%	%
Key policy rate					
	Optimistic scenario	10	2.00	2.25	2.25
	Realistic scenaio	80	2.25	2.50	2.50
	Pessimistic scenario	10	2.50	2.75	2.75
Inflation rate					
	Optimistic scenario	10	1.80	2.00	2.00
	Realistic scenaio	80	2.20	2.50	2.50
	Pessimistic scenario	10	2.40	2.60	2.60
6M Belibor					
	Optimistic scenario	10	1.75	2.00	2.00
	Realistic scenaio	80	1.95	2.15	2.15
	Pessimistic scenario	10	2.15	2.40	2.40

From the beginning of 2020, the Bank conducted a revaluation of key macroeconomic variables used in calculation of expected credit losses. The anticipated values of the NBS key policy rate, inflation rates and 6-month Belibor have been adjusted down, reflecting the Bank's operations in conditions of declining interest rates in Serbian market, as a result of the global pandemic and the recession that has been passed on to the domestic market to a certain extent, with the expectation that this phase has no long-term character.

Movements in the international environment continue to be characterized by uncertainty, primarily regarding the global recovery from the effects of the COVID-19 pandemic and developments in the international financial and commodity markets. Numerous central banks in the world have reacted in the previous period by easing their monetary policies, conventional and unconventional measures, in order to mitigate the negative effects of the crisis. The recovery of the Eurozone, with which the Republic of Serbia has the most important trade and financial connections, should be encouraged by the measures taken by the European Central Bank aimed at increasing liquidity and providing support for more favorable financing conditions.

Industrial production in the Republic of Serbia in November 2020 is lower by 1.4% compared to November 2019, while compared to the average in 2019, it is higher by 6.0%. Industrial production in the period January - November 2020, compared to the same period in 2019, is higher by 0.1%.

Observed by sectors, in November 2020, compared to the same month in 2019, the following trends were recorded: manufacturing sector - a decline of 3.8%, electricity, gas, steam and air conditioning supply - an increase of 6.6% and mining sector - growth of 7.2%. Data on industrial production by purpose groups in November 2020, compared to the same month last year, show that there was a decline in production: non-durable consumer goods (5.7%) and capital goods (5.4%) , while growth was recorded in the production of: durable consumer goods (7.8%), intermediate goods (except energy (1.4%)) and energy (0.7%).

The movement of EURIBOR rates during 2020 had higher volatility than usual. The COVID-19 pandemic and a significant decline in economic activity affected the lack of liquidity in the market and the growth of EURIBOR, which was most pronounced in the second half of April when the negative quarterly EURIBOR was 0.16%. During that period, a number of measures were taken by leading central banks in the direction of very expansive monetary policies, which affected the growth of liquidity in the banking system and the fall of EURIBOR to record low levels and close to the ECB interest rate on deposit facilities (-0, 5%) which is considered practically the lower limit, because banks can keep excess liquidity with the European Central Bank (ECB) at that rate.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The future movement of EURIBOR is difficult to predict, given that it is a market category determined by supply and demand, but the movement of this rate will largely depend on the policy of the European Central Bank in the coming period, ie the extent to which expansionary monetary policy will be pursued.

Inflation in the EU has been below the target for a long time, and the EU economy is not achieving the expected growth. Currently, market participants do not expect a reduction in the ECB's rate on deposit facilities, and no further significant decline in EURIBOR rates is expected. On the other hand, the stimulus monetary policy of the ECB (securities repurchase programs) will be in force for a longer period, with the expected further growth of bank liquidity surpluses, so no higher growth of these rates is expected in the next year or two. Interest rates could rise in the event of higher financial risks after the easing of fiscal measures by which the governments of the countries currently provide assistance to the economy to eliminate the consequences of the COVID-19 pandemic, ie the change of the economic cycle.

BELIBOR (BELIBOR - Belgrade Interbank Offered Rate) is the reference interest rate determined on the Panel of Banks, on the Serbian interbank market. In December 2020, the National Bank of Serbia lowered the reference interest rate by an additional 25 basis points, to 1%, continuing to ease monetary policy. This provided additional support to the domestic economy, given the scale of the global crisis caused by the pandemic, the deteriorating epidemiological situation again and the slowdown in economic recovery globally, especially in Europe. The reference interest rate with an additional reduction is at a level that is 1.25 percentage points lower than before the outbreak of the pandemic. It is expected that further easing of monetary policy, with previous strong measures of the National Bank of Serbia and the Government, as well as announced additional fiscal policy measures, will continue to have a favorable effect on financing conditions of the economy and citizens and growth of their disposable income.

At the same time, the National Bank of Serbia decided to narrow the corridor of its basic interest rates, from ± 1.0 percentage points, to ± 0.9 percentage points in relation to the reference interest rate. Thus, the interest rate on deposit facilities was reduced by 15 basis points, to 0.1%, and the interest rate on credit facilities by 35 basis points, to 1.9%.

The support of the National Bank of Serbia and the Government to the Serbian economy largely contributed to a smaller decline in economic activity in the second quarter than initially expected, as well as to better economic recovery results thereafter. With this in mind, the National Bank of Serbia expects a more favorable growth rate of gross domestic product this year compared to expectations at the beginning of the pandemic, -1.0% instead of -1.5%, although the epidemiological situation in the world and in our country worsened in the fourth quarter. Data from the labor market on the growth of the employment rate and the retained single-digit unemployment rate confirm the importance of the package of economic measures from the previous period.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Komercijalna Banka ad Podgorica

Projection of macroeconomic factors as at December, 31 2020

Macroeconomic factor	Scenario	Multiplier	2021	2022	2023
Average active interest rate (%)	Optimistic scenario	10	5,58	4,77	4,28
	Realistic scenario	80	5,87	5,03	4,51
	Pessimistic scenario	10	6,16	5,28	4,73
Cash and balances with the central bank (EUR million)	Optimistic scenario	10	839,7	922,6	972,8
	Realistic scenario	80	799,7	878,6	926,5
	Pessimistic scenario	10	759,7	834,7	880,1
Industrial production index	Optimistic scenario	10	178,2	194,0	197,8
	Realistic scenario	40	169,7	184,8	188,4
	Pessimistic scenario	10	161,2	175,6	178,9
	Expert scenario	40	162,0	176,0	179,0
Average gross salary (EUR)	Optimistic scenario	10	823	827	835
	Realistic scenario	40	784	788	795
	Pessimistic scenario	10	745	749	755
	Expert scenario	40	745	750	756
Harmonized consumer prices index	Optimistic scenario	10	100,06	104,11	105,52
	Realistic scenario	80	105,33	109,59	111,08
	Pessimistic scenario	10	110,60	115,07	116,63
Average pension (EUR)	Optimistic scenario	10	305,51	307,46	309,91
	Realistic scenario	80	290,96	292,82	295,15
	Pessimistic scenario	10	276,41	278,18	280,40
Number of employees	Optimistic scenario	10	174.25	208.216	211.660
	Realistic scenario	40	165.96	198.301	201.581
	Pessimistic scenario	10	157.66	188.386	191.502
	Expert scenario	40	157.70	188.400	191.550
Impairment allowance of loans in EUR	Optimistic scenario	10	128.49	168.075	173.785
	Realistic scenario	40	135.25	176.921	182.931
	Pessimistic scenario	10	142.01	185.767	192.078
	Expert scenario	40	142.10	185.800	192.120
Budget deficit (EUR million)	Optimistic scenario	10	(49,59)	(25,41)	(27,29)
	Realistic scenario	80	(52,2)	(26,75)	(28,72)
	Pessimistic scenario	10	(54,81)	(28,08)	(30,16)
The number of tourist arrivals	Optimistic scenario	10	13.186	99.806	104.363
	Realistic scenario	80	12.558	95.053	99.393
	Pessimistic scenario	10	11.930	90.300	94.424
Impairment allowance loans in EUR	Optimistic scenario	10	36.631	55.455	59.245
	Realistic scenario	40	38.559	58.373	62.363
	Pessimistic scenario	10	40.487	61.292	65.481
	Expert scenario	40	40.500	61.300	65.500
Trade balance deficit in EUR	Optimistic scenario	10	(147.10	(176.417)	(183.278)
	Realistic scenario	80	(154.85	(185.702)	(192.924)
	Pessimistic scenario	10	(162.59	(194.987)	(202.570)

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Komercijalna Banka ad Banja Luka

Macroeconomic factor	Scenario	Multiplier	2021	2022	2023
		%	%	%	%
3M Euribor					
	Optimistic scenario	10	(1,10)	(1,20)	(1,20)
	Realistic scenario	10	(0,40)	(0,50)	(0,50)
	Pessimistic scenario	80	(1,20)	(1,50)	(1,50)
Gross domestic product – real growth/decline rate					
	Optimistic scenario	10	(2,80)	3,20	3,40
	Realistic scenario	10	(2,90)	3,10	3,30
	Pessimistic scenario	80	(3,00)	3,00	3,20
Inflation	Optimistic scenario	10	(1,10)	1,10	1,20
	Realistic scenario	10	(0,50)	1,20	1,30
	Pessimistic scenario	80	(1,30)	1,30	1,40

Komercijalna banka ad Podgorica used a fourth, expert scenario in the segment of legal entities for the needs of elaboration of various macroeconomic scenarios in addition to three standard scenarios (optimistic, realistic and pessimistic). The expert scenario was included with the aim of covering the specific business circumstances caused by the current COVID-19 pandemic and was therefore assigned the same probability of realization as the realistic scenario (40%). For most macroeconomic factors, the trend was extrapolated to project values in 2022 and 2023.

In the local market where Komercijalna banka ad Podgorica operates, a set of measures were adopted in order to mitigate the effects of the COVID-19 pandemic related to the moratorium (delay in repayment of loan obligations) for clients who request it, restructuring of receivables with treatment of new loan, with an emphasis on clients from industries that are particularly exposed to the effects of the COVID-19 pandemic, such as tourism, with adequate documentation that their business has deteriorated, and such clients are subject to additional measures in the form of long-term restructuring and other. Also, measures were adopted in order to maintain current liquidity, as well as assistance for the population and subsidies for salaries of employees in the most endangered activities and measures aimed at preserving jobs. In addition, a set of measures was adopted to encourage tourism, agriculture and fishing, as well as other measures.

When projecting the value of macroeconomic factors, Komercijalna banka ad Banja Luka is in line with the conservative approach, and taking into account the expected negative effects of the COVID-19 pandemic, for the pessimistic scenario used a probability percentage of 80%, while for the realistic and optimistic scenario of 10% each.

The projected values of the variables for the realistic scenario are taken from the official document "Global framework of fiscal balance and policy in Bosnia and Herzegovina for the period 2021-2023. year "which was adopted by the Council of Ministers of BiH, the Government of the Republika Srpska and the Government of the Federation of BiH. Regarding the projected values of the variables for the pessimistic scenario, in 2020 the inflation rates and 3M EURIBOR deteriorated by -0.80 in absolute terms, compared to the officially projected values due to the impact of the COVID-19 pandemic, while the rate variable is GDP growth worsened by -0.10 in the pessimistic scenario.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

In the local market where Komercijalna banka ad Banja Luka operates, a set of measures was adopted in order to mitigate the effects of the COVID-19 pandemic on the real sector and the population, such as the decision of the Banking Agency of Republika Srpska on temporary measures to mitigate negative economic consequences. viral disease COVID-19, which allows special measures that banks approve to customers in the form of a moratorium on loan repayment for up to six months, repayment extension, grace period and more. Given the scope of this decision, this member of the Group has defined a set of modalities for individual clients, and not for the entire portfolio.

Also, a set of measures was defined in the form of deferral of profit tax and liabilities according to the final financial statements for 2019, urgent refund of taxes and contributions from 2019, moratorium on repayment of loans of the Investment and Development Bank for a period of three months, payment of minimum salaries and contributions for April and May to employees of legal entities from activities that were not able to perform business activities, or ceased operations due to the impact of the COVID-19 pandemic.

Additional protective layer of impairment for credit risk

In addition to the direct effects of the COVID-19 pandemic through the deterioration of macroeconomic expectations on the level of impairment of Group members,, it was necessary to include additional expert judgement when assessing thee level of credit risk impairment, in order to adequately reflect the estimated effects of the potential crisis. The inclusion of expert judgement was done through the allocation of an additional protective layer of impairment for credit risk. This was realized with the Parent bank through the assumption of deterioration of projected default rates, obtained by econometric models, by depicting the assumed form of the expected crisis (a combination of curves V and U), which are characterized by the greatest effects during 2021 (further deepening crisis and recession effects), with the expected slight recovery in 2022, which would continue in 2023. In addition, the deterioration of projected default rates was implemented by applying an additional increase in default rates obtained by econometric models by 15% in 2021 and 10% in 2022 and 2023.

All members of the banking group have included deteriorating macroeconomic expectations when calculating impairment for credit risk.

Calculation of credit risk impairment for stages 1 and 2

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, with the addition of a protective impairment layer for credit risk with the aim of including the effects caused by the COVID-19 pandemic.

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Group uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year. 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, with the addition of a protective impairment layer for credit risk with the aim of including the effects caused by the COVID-19 pandemic.

PD parameters are updated semi-annually (for the dates of 30 June and 31 December) and are applied in the next half of the year, except for 31 December when PD parameter is applied for 31December. Exceptionally, the PD update for the second half of the year is also performed for 30 June, with data as of 31 May of the current year.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

When assessing the impairment and default risk exposure of financial instruments of the state, its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency.

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t then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation.

The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Determining the probable loss on off-balance sheet items

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

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

Means of protection against credit risk (collateral)

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

The total exposure to credit risk as at December 31, 2020 and 2019 is shown in the next review, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

Total exposure to credit risk before collateral and other improvements

Total exposure to credit risk

In thousands of RSD

	31.12.2020		31.12.2019	
	Gross	Net	Gross	Net
I. Assets	525,971,325	500,295,540	500,842,907	475,755,894
Cash and balances with the central bank	86,892,070	86,892,070	76,654,402	76,654,402
Loans and advances to banks and other financial institutions	18,869,773	18,865,483	27,209,396	26,990,004
Loans and receivables from customers	231,621,844	219,433,627	221,020,005	208,234,158
Financial assets (securities and derivatives)	158,442,869	158,438,656	144,480,034	144,479,432
Other assets	9,806,720	6,806,000	10,376,428	7,602,610
Assets	20,338,049	9,859,704	21,102,642	11,795,288
II. Off-balance sheet items	44,071,806	43,803,018	55,934,191	55,723,796
Payable guarantees	5,088,108	5,008,735	4,983,412	4,943,117
Performance guarantees	7,131,239	7,057,496	5,754,471	5,702,687
Irrevocable liabilities	31,625,243	31,552,723	44,634,858	44,540,969
Other	227,216	184,064	561,450	537,023
Total (I+II)	570,043,131	544,098,558	556,777,098	531,479,690

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in loans and receivables to customers by level of risk during 2020

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
31.12.2019	195,782,851	8,438,863	16,798,291	221,020,005
New receivables	49.583.493	4,161,198	109,921	53,854,611
Decrease/collection of receivables	(29.006.984)	(2,044,151)	(2,172,847)	(33,223,984)
Transfer to stage 1	-	(853,982)	(137,319)	(991,301)
Trasnfer to stage 2	(9.446.398)	-	(82,457)	(9,528,855)
Transfer to stage 3	(4.352.668)	(199,767)	-	(4,552,435)
Transfer from other stages	863.248	7,835,319	4,541,645	13,240,212
Other changes	(6.860.597)	(931,585)	(404,227)	(8,196,409)
31.12.2020	196,562,944	16,405,894	18,653,006	231,621,844

Changes in impairment allowance of loans and receivables to customers by level of risk during 2020

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
31.12.2019	1,081,249	145,459	11,559,139	12,785,847
New receivables	285,718	122,155	73,860	481,734
Decrease/collection of receivables	(213.954)	(21,222)	(1,813,316)	(2,048,492)
Transfer to stage 1	-	(24,830)	(70,638)	(95,468)
Transfer to stage 2	(73,682)	-	(41,553)	(115,235)
Transfer to stage 3	(106,578)	(17,937)	-	(124,515)
Transfer from other stages	94,164	98,227	122,743	315,135
Other changes	(92,391)	(10,058)	1,091,661	989,211
31.12.2020	974,528	291,793	10,921,896	12,188,217

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

During 2020, transitions of exposures by Stages are consequence of regular business transactions:

- transition to Stage 1 from Stage 2 and 3 is a consequence of the improvement of business parameters according to the financial statements for 2019, or due to the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1, is mostly due to the impact of the COVID-19 pandemic on the affected activities (catering, tourism, traffic ...) which have been reclassified to Stage 2 in order to prevent and realize impairment, as well as increase credit risk with a number of clients.
- Transition to Stage 3 from Stage 1 and 2 is a consequence of an increase of the impact of the pandemic caused by the COVID-19 on the decline in business activity and the reduction of the financial potential for regulating liabilities to the Bank. Observations of debtors were performed several times in the previous period, as expectations regarding the effects of the crisis have changed, especially in the field of treatment of debtors from the most vulnerable industries for which a full recovery is not expected in 2021, clients with losses above amount of capital, expected new requests for additional relaxations of contractual terms in 2021, as a consequence of prolonged negative effects of the COVID-19 pandemic and other elements, and special consideration was given to the restructuring of placements for certain clients who were unable to repay in the initially agreed maturity of the loan, as well as in cases where, despite the recapitalization, the cumulative loss is not covered, and that a significant decline in operating revenues was achieved during 2020 as a result of the COVID-19 pandemic. The decrease in receivables in stage 3, for the most part, is a consequence of the transfer of 100% of impaired receivables to off-balance sheet records, as well as the regulation of risky receivables (collection from collateral and regular business of clients). The mentioned transition from stages 1 and 2 to stage 3 was accompanied by the movement of value adjustment, which abruptly increased after entering stage 3. During the year, receivables from stage 1 were in stage 2 before moving to stage 3.
- The decrease in exposure in the Parent Bank was influenced in the amount of RSD 336 million and the recognition of losses due to modification of financial assets due to delays in settling interest obligations of clients during moratoriums 1 and 2, evenly until the end of the extended repayment period.
- -Other changes mainly relate to the increase / decrease in exposure with clients who did not change stages on both dates. Also, other changes include accrual of the interest, exchange rate differences and more.
- The decrease of impairment allowance in other changes is mostly due to the improvement of risk parameters that are used for the impairment of PL (good) placements and were placed in the Bank's portfolio on the December 31, 2019 and December 31, 2020.
- The increase in value adjustments in other changes in stage 3, refers to the increase in value adjustments that occurred after the transition of the client from stage 1 and stage 2 and stage 3, under the already clarified assumptions.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

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

In thousands of RSD

31.12.2020	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	50,260,760	1,432,616	1,041,686	52,735,062	22,339	7,725	466,605	496,669	52,238,393
Cash Loans	39,998,555	895,275	394,462	41,288,292	152,305	43,677	278,587	474,569	40,813,723
Agricultural Loans	11,516,581	230,676	282,684	12,029,941	92,661	21,941	122,071	236,673	11,793,268
Other Loans	4,394,543	95,562	207,366	4,697,472	27,199	6,026	184,827	218,052	4,479,420
Micro Business	10,193,822	3,407,727	758,454	14,360,003	136,855	67,821	379,943	584,619	13,775,384
Total retail	116,364,261	6,061,856	2,684,652	125,110,770	431,359	147,190	1,432,033	2,010,582	123,100,188
Large corporate clients	26,896,719	6,714,823	6,429,321	40,040,863	125,970	65,078	3,675,082	3,866,130	36,174,733
Middle corporate clients	10,649,187	1,559,080	535,844	12,744,111	57,613	17,977	195,928	271,518	12,472,594
Small corporate clients	5,084,891	1,016,999	1,216,281	7,318,171	35,980	20,538	662,254	718,772	6,599,399
State owned clients	24,407,872	764,054	3,588,648	28,760,574	96,565	37,864	1,087,247	1,221,676	27,538,898
Other	13,160,013	289,082	4,198,260	17,647,355	227,041	3,146	3,869,353	4,099,540	13,547,815
Total corporate	80,198,682	10,344,038	15,968,354	106,511,074	543,169	144,603	9,489,863	10,177,635	96,333,440
Total	196,562,944	16,405,894	18,653,006	231,621,844	974,528	291,793	10,921,896	12,188,217	219,433,627
Due from banks	18,869,773	-	-	18,869,773	4,291	-	-	4,291	18,865,482

Note: According to the internal segmentation, the retail sector includes individuals, farmers and microbusiness (entrepreneurs and micro clients).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

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

In thousands of RSD

31.12.2019	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage2	Impairment allowance Stage 3	Impairment allowance	Net
Housing loans	44,781,851	1,088,516	1,135,502	47,005,869	60,507	19,892	533,451	613,850	46,392,019
Cash loans	37,099,788	519,553	309,188	37,928,529	185,900	23,444	234,389	443,733	37,484,796
Agriculture Loans	9,359,411	131,203	276,017	9,766,631	103,736	12,524	127,686	243,946	9,522,685
Other Loans	4,917,081	55,704	166,639	5,139,424	40,117	2,258	159,509	201,884	4,937,540
Micro bussines	11,129,442	1,340,718	857,497	13,327,657	163,001	32,559	427,704	623,264	12,704,393
Total retail	107,287,573	3,135,694	2,744,843	113,168,110	553,261	90,677	1,482,739	2,126,677	111,041,433
Large corporate clients	33,820,703	4,177,912	6,273,603	44,272,218	135,538	43,053	3,714,018	3,892,609	40,379,609
Middle corporate clients	10,930,280	383,397	1,804,172	13,117,849	63,502	3,614	1,377,025	1,444,141	11,673,708
Small corporate clients	5,682,357	327,676	1,538,864	7,548,897	34,708	2,628	923,232	960,568	6,588,329
State owned clients	24,493,519	413,490	170,672	25,077,681	141,136	5,464	132,088	278,688	24,798,993
Other	13,568,419	694	4,266,137	17,835,250	153,106	21	3,930,037	4,083,164	13,752,086
Total clients	88,495,278	5,303,169	14,053,448	107,851,895	527,990	54,780	10,076,400	10,659,170	97,192,725
Total	195,782,851	8,438,863	16,798,291	221,020,005	1,081,249	145,459	11,559,139	12,785,847	208,234,158
Due from banks	26,994,979	-	214,417	27,209,396	4,975	-	214,417	219,392	26,990,004

Note: According to the internal segmentation, the retail sector includes individuals, farmers and microbusiness (entrepreneurs and micro clients).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Changes in impairment allowance of receivables in the Balance Sheet

In thousands of RSD

	31.12.2019	Incerase in impairment allowance	Reversal of impairment allowance	Other changes	31.12.2020
Total retail	2,126,679	1,182,577	(1,158,625)	(140,048)	2,010,582
Total corporate	10,659,169	3,131,922	(2,146,350)	(1,467,106)	10,177,635
Total	12,785,848	4,314,499	(3,304,975)	(1,607,154)	12,188,217
Due from banks	219,393	42,256	(42,910)	(214,447)	4,291

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Problematic loans and receivables – stage 3

Problematic loans and receivables are those loans and receivables for which the Group has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of due principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default (risk sub-category 4D and 4DD according to the internal rating system and risk category 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset and if there is a measurable decrease in future cash flows. Also, problematic loans include less materially significant stage 3 loans, and their impairment calculation is done on a group basis in accordance with the requirements of IFRS 9.

Non-problematic loans and receivables – stages 1 and 2

For non-problematic receivables – stage 1 and stage 2 (rating categories 1, 2, 3 and subcategory 4), impairment is assessed on a group level (non-impaired receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly level.

The impairment assessment on a group basis is based on the probability of the occurrence of debtor's probability of default (PD) calculated on the basis of migration into the status of default, by type of client or product. By appreciating the specifics in dealing with clients, migrations for corporate sector, retail sector by types of products, banks and entrepreneurs are specially determined.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivables by days past due – non-problematic receivables, stage 1 and 2

In thousands of RSD

	Stage 1						Stage 2					
31.12.2020	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	50,055,749	205,011	-	-	-	50,260,760	1,150,390	58,945	162,541	60,740	-	1,432,616
Cash Loans	36,953,292	3,045,263	-	-	-	39,998,555	279,373	182,832	305,284	127,786	-	895,275
Agricultural Loans	11,260,000	256,581	-	-	-	11,516,581	74,640	21,850	82,504	51,682	-	230,676
Other Loans	4,071,119	323,424	-	-	-	4,394,543	37,921	12,529	32,186	12,926	-	95,562
Micro Business	9,756,132	437,690	-	-	-	10,193,822	2,074,079	582,427	518,023	233,198	-	3,407,727
Total retail	112,096,292	4,267,969	-	-	-	116,364,261	3,616,403	858,583	1,100,538	486,332	-	6,061,856
Large corporate clients	26,826,532	70,187	-	-	-	26,896,719	6,544,007	170,815	-	-	-	6,714,822
Middle corporate clients	10,448,795	200,392	-	-	-	10,649,187	1,274,153	260,490	24,437	-	-	1,559,080
Small corporate clients	4,866,845	218,046	-	-	-	5,084,891	823,480	132,917	60,602	-	-	1,016,999
State owned clients	23,285,979	1,121,893	-	-	-	24,407,872	595,476	61,171	107,407	-	-	764,054
Other	13,160,013	-	-	-	-	13,160,013	289,083	-	-	-	-	289,083
Corporate clients	78,588,164	1,610,518	-	-	-	80,198,682	9,526,199	625,393	192,446	-	-	10,344,038
Total	190,684,456	5,878,488	-	-	-	196,562,944	13,142,602	1,483,976	1,292,984	486,332	-	16,405,894
Out of which: restructured	-	-	-	-	-	-	1,060,040	344,779	367,297	29,150	-	1,801,266
Due from banks	18,869,773	-	-	-	-	18,869,773	-	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Non-impaired receivables by days past due

In thousands of RSD

	Stage 1						Stage 2					
31.12.2019	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	44,539,639	242,212	-	-	-	44,781,851	839,158	55,654	104,072	89,632	-	1,088,516
Cash Loans	34,974,192	2,125,597	-	-	-	37,099,789	191,808	112,915	165,138	49,692	-	519,553
Agricultural Loans	9,225,650	133,760	-	-	-	9,359,410	45,377	4,084	72,882	8,860	-	131,203
Other Loans	4,599,445	317,636	-	-	-	4,917,081	14,333	12,094	22,066	7,211	-	55,704
Micro business	10,263,109	866,332	-	-	-	11,129,441	696,156	429,738	169,338	45,486	-	1,340,718
Total retail	103,602,035	3,685,537	-	-	-	107,287,572	1,786,832	614,485	533,496	200,881	-	3,135,694
Large corporate clients	33,417,623	403,080	-	-	-	33,820,703	3,753,401	424,512	-	-	-	4,177,913
Middle corporate clients	10,485,985	444,295	-	-	-	10,930,280	184,645	183,964	14,788	-	-	383,397
Small corporate clients	5,378,501	303,856	-	-	-	5,682,357	233,326	87,729	6,621	-	-	327,676
State owned clients	23,573,444	920,074	-	-	-	24,493,518	394,081	19,409	-	-	-	413,490
Other	13,562,545	5,875	-	-	-	13,568,420	694	-	-	-	-	694
Corporate clients	86,418,098	2,077,180	-	-	-	88,495,278	4,566,147	715,614	21,409	-	-	5,303,170
Total	190,020,133	5,762,717	-	-	-	195,782,850	6,352,979	1,330,099	554,905	200,881	-	8,438,864
Out of which: restructured	-	-	-	-	-	-	2,177,675	543,510	33,405	10,330	-	2,764,920
Due from banks	24,789,971	2,205,008	-	-	-	26,994,979	-	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

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

In thousands of RSD

	31.12.2020					31.12.2019				
	Change of IR	Restructuring	Due up to 30 days	Other	Total	Change of IR	Restructuring	Due up to 30 days	Other	Total
Housing Loans	28,535	266,518	73,900	1,063,663	1,432,616	8,507	249,267	188,644	642,097	1,088,516
Cash Loans	3,428	40,648	160,195	691,004	895,275	17,054	48,867	200,184	253,446	519,553
Agricultural Loans	-	6,138	115,440	109,099	230,676	9,508	7,077	99,623	14,996	131,203
Other Loans	268	15,370	22,148	57,775	95,562	859	-	35,11	19,735	55,703
Micro Businesses	344,515	829,606	584,242	1,649,364	3,407,727	366,239	24,138	218,639	731,703	1,340,718
Retail clients	376,746	1,158,280	955,925	3,570,905	6,061,856	402,167	329,349	742,200	1,661,977	3,135,693
Large corporate clients	4,641,240	-	-	2,073,583	6,714,823	3,441,528	736,238	-	150	4,177,915
Middle corporate clients	7,498	268,185	24,437	1,258,960	1,559,080	50,494	-	14,784	318,119	383,397
Small corporate clients	23,756	224,972	132,302	635,968	1,016,999	11,075	33,956	6,621	276,025	327,676
State owned clients	439,346	149,829	184	174,695	764,054	97,272	-	-	316,217	413,490
Other	2,346	-	-	286,737	289,082	-	-	-	694	694
Corporate clients	5,114,186	642,986	156,923	4,429,943	10,344,038	3,600,369	770,193	21,405	911,205	5,303,172
Total	5,490,932	1,801,266	1,112,848	8,000,848	16,405,894	4,002,536	1,099,542	763,605	2,573,182	8,438,865
Due from banks	-	-	-	-	-	-	-	-	-	-

'Other' includes technical and expert signals (in accordance with the process of early identification of potentially risky exposures), as well as the impact of the COVID-19 pandemic (significant impact on December 31, 2020).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impairment allowance according to the criterion of inclusion in Stage 2

In thousands of RSD

	31.12.2020					31.12.2019				
	Change of IR	Restructuring	Due up to 30 days	Other	Total	Change of IR	Restructuring	Due up to 30 days	Other	Total
Housing Loans	98	1,817	436	5,374	7,725	147	13,783	2,325	3,638	19,893
Cash Loans	49	3,366	17,695	22,567	43,677	998	1,630	11,245	9,571	23,444
Agricultural Loans	-	248	15,814	5,879	21,941	112	326	11,732	355	12,525
Other Loans	1	3,393	868	1,764	6,026	34	-	1,749	475	2,258
Micro Businesses	19,152	4,699	12,129	31,842	67,822	11,327	1,269	3,692	16,271	32,559
Retail clients	19,300	13,523	46,942	67,426	147,191	12,618	17,008	30,743	30,310	90,679
Large corporate clients	60,007	-	-	5,071	65,078	38,008	4,895	150	-	43,053
Middle corporate clients	455	4,529	33	12,961	17,977	2,269	-	972	373	3,614
Small corporate clients	3,086	11,601	941	4,910	20,539	45	476	922	1,185	2,628
State owned clients	32,907	2,804	1	2,151	37,863	4,733	-	731	-	5,464
Other	-	-	-	3,146	3,146	-	-	21	-	21
Corporate clients	96,455	18,934	974	28,239	144,603	45,055	5,371	2,796	1,558	54,780
Total	115,755	32,457	47,916	95,665	291,793	57,673	22,379	33,539	31,868	145,459
Due from banks	-	-	-	-	-	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

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

In thousands of RSD

	Stage 3					
31.12.2020	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	278,684	13,347	81,612	52,572	615,471	1,041,686
Cash Loans	68,644	47,613	27,718	60,148	190,340	394,463
Agricultural Loans	48,529	10,887	20,242	11,218	191,808	282,684
Other Loans	18,927	4,532	2,470	1,401	180,036	207,366
Micro business	49,416	22,854	36,035	24,857	625,292	758,454
Total retail	464,199	99,233	168,077	150,196	1,802,947	2,684,652
Large corporate clients	1,111,839	-	303,977	-	5,013,505	6,429,321
Middle corporate clients	194,086	-	41,773	8,279	291,706	535,844
Small corporate clients	37,906	-	34,526	151,356	992,493	1,216,281
State owned clients	3,418,324	-	-	-	170,324	3,588,648
Other	196,673	-	-	-	4,001,587	4,198,260
Corporate clients	4,958,828	-	380,276	159,635	10,469,615	15,968,354
Total	5,423,027	99,233	548,353	309,831	12,272,562	18,653,006
Out of which: restrucured	4,034,606	17,689	59,893	24,852	5,286,433	9,423,473
Due from banks	-	-	-	-	-	-

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due

In thousands of RSD

	Stage 3					
31.12.2019	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	288,319	5,284	50,600	64,155	727,144	1,135,502
Cash Loans	63,728	18,864	20,142	17,068	189,386	309,188
Agricultural Loans	67,141	9,151	5,928	5,455	188,342	276,017
Other Loans	6,821	984	641	840	157,352	166,638
Micro business	27,923	79,479	12,748	87,301	650,047	857,498
Total retail	453,932	113,762	90,059	174,819	1,912,271	2,744,843
Large corporate clients	1,652,779	52,063	55,309	-	4,513,452	6,273,603
Middle corporate clients	199,802	-	-	-	1,604,370	1,804,172
Small corporate clients	22,076	-	-	6,556	1,510,232	1,538,864
State owned clients	334	-	-	-	170,337	170,671
Other	1,319,701	-	-	-	2,946,437	4,266,138
Corporate clients	3,194,692	52,063	55,309	6,556	10,744,828	14,053,448
Total	3,648,624	165,825	145,368	181,375	12,657,099	16,798,291
Out of which: restrucured	1,441,403	58,846	84,157	24,191	6,267,816	7,876,413
Due from banks	214,418	-	-	-	-	214,418

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, stage 3 in total loans

In thousands of RSD

31.12.2020	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Impairment allowance stage 3	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	125,110,770	2,010,582	2,684,652	427,175	1,432,033	2,15%	2,203,431
Housing Loans	52,735,062	496,669	1,041,686	171,087	466,605	1,98%	1,028,103
Cash Loans	41,288,292	474,569	394,463	31,121	278,587	0,96%	150,265
Agricultural Loans	12,029,941	236,673	282,684	48,649	122,071	2,35%	264,313
Other Loans	4,697,473	218,052	207,365	16,385	184,827	4,41%	18,916
Micro business	14,360,002	584,619	758,454	159,933	379,943	5,28%	741,834
Corporate clients	106,511,074	10,177,635	15,968,354	8,996,299	9,489,863	14,99%	14,230,615
Agriculture	3,016,242	13,400	9,002	-	4,928	0.30%	9,170
Manufacturing industry	13,547,029	1,181,085	2,862,159	2,796,569	1,105,742	21.13%	2,860,487
Electric Energy	4,958,358	23,372	-	-	42,115	0.00%	0
Construction	13,844,781	683,463	813,851	81,093	658,109	5.88%	813,985
Wholesale and Retail	21,190,965	597,748	910,318	644,494	439,914	4.30%	767,234
Service Activites	14,231,252	2,373,713	4,632,020	4,582,130	2,253,170	32.55%	4,631,098
Real Estate Activitis	8,093,730	491,485	1,356,389	687,488	474,825	16,76%	1,371,167
Other	27,628,717	4,813,369	5,384,615	204,525	4,511,060	19.49%	3,777,474
Total	231,621,844	12,188,217	18,653,006	9,423,474	10,921,896	8.05%	16,434,046
Due from banks	18,869,773	4,291	-	-	-	0.00%	

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Participation of problematic receivables, stage 3 in total loans

In thousands of RSD

31.12.2019	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Impairment allowance stage 3	Share of stage 3 in total loans (%)	Collateral value stage 3
Total retail	113,168,107	2,126,677	2,744,842	673,160	1,482,739	2.43%	2,328,726
Housing Loans	47,005,868	613,850	1,135,501	262,548	533,451	2.42%	1,122,941
Cash Loans	37,928,529	443,733	309,281	41,006	234,389	0.82%	126,137
Agricultural Loans	9,766,631	243,946	276,017	44,886	127,686	2.83%	255,180
Other Loans	5,139,423	201,884	166,546	-	159,509	3.24%	779
Micro business	13,327,656	623,264	857,497	324,720	427,704	6.43%	823,689
Corporate clients	107,851,898	10,659,170	14,053,449	7,203,252	10,076,400	13.03%	12,563,919
Agriculture	4,295,672	65,120	60,217	-	56,463	1.40%	60,385
Manufacturing industry	14,295,642	1,234,575	2,973,633	2,890,382	1,176,505	20.80%	2,973,633
Electric Energy	1,633,891	7,892	-	-	-	0.00%	-
Construction	10,172,505	633,151	813,973	150,578	615,670	8.00%	814,321
Wholesale and Retail	26,852,727	767,801	1,129,204	844,721	623,052	4.21%	1,122,879
Service Activites	15,612,463	1,358,306	1,579,328	1,571,626	1,220,425	10.12%	1,578,182
Real Estate Activitis	5.210.840	490,298	1,031,805	687,601	482,859	19.80%	1,029,573
Other	29,778,158	6,102,027	6,465,289	1,058,344	5,901,426	21.71%	4,984,946
Total	221,020,005	12,785,847	16,798,291	7,876,412	11,559,139	7.60%	14,892,645
Due from banks	27,209,396	219,393	214,417	-	214,417	0.79%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Changes in problematic receivables

In thousands of RSD

	Gross 31.12.2019	New problematic receivables – stage 3	Decrease in problematic receivables – stage 3	Foreign exchange rate effect	Other changes	Gross 31.12.2020	Net 31.12.2020
Housing Loans	1,135,502	171,419	(218,787)	(55)	(46,393)	1,041,686	575,081
Cash Loans	309,188	231,907	(120,851)	(2)	(25,780)	394,463	115,876
Agricultural Loans	276,017	91,262	(60,811)	(24)	(23,760)	282,684	160,613
Other Loans	166,638	86,744	(51,173)	(0)	5,157	207,365	22,538
Micro business	857,497	201,003	(202,552)	(43)	(97,451)	758,454	378,511
Total retail	2,744,842	782,335	(654,174)	(124)	(188,227)	2,684,652	1,252,619
Large corporate clients	6,273,603	363,402	(119,258)	(656)	(87,769)	6,429,321	2,754,239
Middle corporate clients	1,804,172	8,775	(1,213,651)	(124)	(63,328)	535,844	339,916
Small corporate clients	1,538,864	78,730	(219,694)	(60)	(181,560)	1,216,281	554,027
State owned clients	170,672	3,418,324	(334)	(13)	-	3,588,648	2,501,402
Other	4,266,137	0	(185,512)	(109)	117,743	4,198,260	328,907
Corporate clients	14,053,448	3,869,231	(1,738,449)	(962)	(214,914)	15,968,354	6,478,491
Total	16,798,291	4,651,566	(2,392,623)	(1,086)	(403,141)	18,653,006	7,731,110
Due from banks	214,418	-	-	(18,914)	(195,504)	-	-

The increase in problematic receivables is a consequence of the transfer into NPL status of clients whose receivables have been restructured. The reduction of problem receivables mostly refers to the transfer of 100% of impaired receivables to off-balance sheet records (parent bank and KB Banja Luka).

Other changes relate to a partial increase/decrease in the amount of receivables within one lot during the year and mostly to the partial collection at parent Bank.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

In thousands of RSD

	31.12.2020				31.12.2019			
	Low (IR 1, 2)	Medium and High (IR 3,4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 1, 2)	Total	Value of collaterals
Housing Loans	51,553,351	140,025	51,693,376	50,943,542	45,740,283	130,084	45,870,367	45,399,172
Cash Loans	40,632,183	261,646	40,893,829	11,568,026	37,432,081	187,260	37,619,341	11,566,724
Agricultural Loans	11,661,145	86,113	11,747,258	11,112,092	9,468,503	22,110	9,490,613	8,072,417
Other Loans	4,460,959	29,147	4,490,106	206,084	4,951,194	21,590	4,972,784	103,517
Micro business	11,479,343	2,122,206	13,601,549	12,650,652	11,646,346	823,813	12,470,159	11,600,384
Total retail	119,786,981	2,639,137	122,426,118	86,480,396	109,238,407	1,184,857	110,423,264	76,742,214
Large corporate clients	27,511,978	6,099,564	33,611,542	31,536,045	34,089,406	3,909,212	37,998,618	35,032,867
Middle corporate clients	12,009,413	198,854	12,208,267	10,109,796	11,255,132	58,545	11,313,677	9,375,458
Small corporate clients	5,606,134	495,756	6,101,890	5,078,814	5,967,441	42,592	6,010,033	5,176,952
State owned clients	19,842,040	5,329,886	25,171,926	25,033,752	17,502,936	7,404,073	24,907,009	24,334,367
Other	8,660,913	4,788,182	13,449,095	6,905,717	8,020,596	5,548,518	13,569,114	7,671,134
Corporate clients	73,630,478	16,912,242	90,542,720	78,664,124	76,835,511	16,962,940	93,798,451	81,590,778
Total	193,417,459	19,551,379	212,968,838	165,144,520	186,073,918	18,147,797	204,221,715	158,332,992
Due from banks	18,869,773	-	18,869,773	1,804	26,994,979	-	26,994,979	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In thousands of RSD

31.12.2020	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restrucutered receivables – stage 2	Impairmentof restructured receivables – stage 2	Restructured receivables – stage 3	Impairment of restructured receivables – stage 3	Percantage of restructured in total receivables (%)	The amount of collaterals for restructured receivables
Total retail	125,110,770	2,010,582	1,585,455	186,399	1,158,280	13,523	427,175	172,876	1.27%	1,523,036
Housing Loans	52,735,062	496,669	437,605	62,826	266,518	1,817	171,087	61,009	0.83%	435,547
Cash Loans	41,288,292	474,569	71,769	20,850	40,648	3,366	31,121	17,484	0.17%	33,282
Agricultural Loans	12,029,941	236,673	54,786	21,111	6,138	248	48,649	20,863	0.46%	54,481
Other Loans	4,697,473	218,052	31,755	17,862	15,370	3,393	16,385	14,469	0.68%	30,025
Micro business	14,360,002	584,619	989,540	63,750	829,606	4,699	159,933	59,052	6.89%	969,701
Corporate clients	106,511,074	10,177,635	9,639,285	4,366,637	642,986	18,934	8,996,299	4,347,703	9.05%	9,592,215
Agriculture	3,016,242	13,400	114,191	-	114,191	-	-	-	3.79%	114,191
Manufacturing industry	13,547,029	1,181,085	2,796,569	1,095,279	-	-	2,796,569	1,095,279	20.64%	2,796,569
Electric Energy	4,958,358	23,372	-	-	-	-	-	-	0.00%	-
Construction	13,844,781	683,463	153,587	66,478	72,494	-	81,093	66,478	1.11%	153,587
Wholesale and Retail	21,190,965	597,748	929,727	364,847	285,233	15,110	644,494	349,737	4.39%	888,882
Service Activites	14,231,252	2,373,713	4,603,370	2,236,273	21,240	1,020	4,582,130	2,235,253	32.35%	4,597,145
Real Estate Activities	8.093.730	491,485	711,167	425,806	23,678	107	687,488	425,699	8.79%	711,167
Other	27,628,717	4,813,369	330,674	177,954	126,150	2,697	204,525	175,257	1.20%	330,675
Total	231,621,844	12,188,217	11,224,740	4,553,036	1,801,266	32,457	9,423,473	4,520,579	4.85%	11,115,251
Due from banks	18,869,773	4,291	-	-	-	-	-	-	0.00%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

31.12.2019	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restrucutered receivables – stage 2	Impairmentof restructured receivables – stage 2	Restructured receivables – stage 3	Impairment of restructured receivables – stage 3	Percantage of restructured in total receivables (%)	The amount of collaterals for restructured receivables
Total retail	113,168,107	2,126,677	1,987,885	310,165	1,314,725	31,745	673,160	278,420	1.76%	1,343,717
Housing Loans	47,005,868	613,850	755,459	117,505	492,911	13,840	262,548	103,664	1.61%	753,106
Cash Loans	37,928,529	443,733	659,229	35,098	618,223	7,827	41,006	27,271	1.74%	161,891
Agricultural Loans	9,766,631	243,946	51,963	8,103	7,077	326	44,886	7,778	0.53%	51,571
Other Loans	5,139,423	201,884	1,425	19	1,425	19	-	-	0.03%	-
Micro business	13,327,656	623,264	519,809	149,440	195,089	9,733	324,720	139,707	3.90%	377,149
Corporate clients	107,851,898	10,659,170	8,653,448	4,383,944	1,450,195	40,711	7,203,253	4,343,233	8.02%	8,121,660
Agriculture	4,295,671	65,120	8,786	-	8,786	-	-	-	0.20%	8,786
Manufacturing industry	14,295,642	1,234,575	2,890,382	1,148,459	-	-	2,890,382	1,148,459	20.22%	2,890,382
Electric Energy	1,633,891	7,892	-	-	-	-	-	-	0.00%	-
Construction	10,172,505	633,151	910,027	139,577	759,449	4,895	150,578	134,683	8.95%	909,822
Wholesale and Retail	26,852,727	767,801	1,202,523	473,206	357,802	7,332	844,721	465,874	4.48%	965,339
Service Activites	15,612,463	1,358,306	1,866,025	1,247,647	294,399	28,484	1,571,626	1,219,163	11.95%	1,571,626
Real Estate Activities	5.210.840	490,298	695,244	452,272	7,643	0	687,601	452,272	13.34%	695,244
Other	29,778,159	6,102,027	1,080,461	922,783	22,116	0	1,058,345	922,782	3.63%	1,080,461
Total	221,020,005	12,785,847	10,641,333	4,694,109	2,764,920	72,456	7,876,413	4,621,653	4.81%	9,465,377
Due from banks	27,209,396	219,393	-	-	-	-	-	-	0.00%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousands of RSD

	Gross 31.12.2019	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes	Gross 31.12.2020	Net 31.12.2020
Housing Loans	755,459	23,491	(323,611)	(30)	(17,703)	437,605	374,780
Cash Loans	659,229	5,794	(566,064)	(1)	(27,188)	71,769	50,919
Agricultural Loans	51,963	4,549	(1,308)	(5)	(412)	54,786	33,675
Other Loans	1,425	7,033	(1,426)	-	24,721	31,755	13,892
Micro business	519,809	623,272	(83,770)	(17)	(69,753)	989,540	925,789
Total retail	1,987,885	664,140	(976,181)	(54)	(90,336)	1,585,455	1,399,056
Large corporate clients	6,566,608	-	(1,127,493)	(657)	(27,648)	5,410,810	2,344,703
Middle corporate clients	1,288,107	-	(789,897)	(104)	(10,266)	487,840	379,827
Small corporate clients	776,618	50,737	(18,709)	(5)	(146,114)	662,526	403,299
State owned clients	-	3,078,108	-	-	(0)	3,078,108	2,144,818
Other	22,115	-	(22,113)	-	(2)	-	-
Corporate clients	8,653,448	3,128,845	(1,958,212)	(766)	(184,030)	9,639,285	5,272,648
Total	10,641,333	3,792,984	(2,934,392)	(820)	(274,366)	11,224,740	6,671,704
Due from banks	.	-	-	-	-	-	-

The increase in restructured receivables is a consequence of the transfer into NPL status of clients with whom receivables were restructured. The decrease in restructured receivables mostly refers to the transfer of 100% of impaired receivables to off-balance sheet records (mostly with the parent bank) and the collection of restructured receivables in full with restructured PL placements (mostly the parent bank).

Other changes relate to a partial increase / decrease in the amount of restructured receivables within one lot during the year, most notably to partial collection.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Group implements in the restructuring of receivables

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

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

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration

The Group manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio.

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

In thousands of RSD

31.12.2020	Stage 1 and 2					Stage 3				
	Serbia	Montenegro	BiH	EU	Other	Serbia	Montenegro	BiH	EU	Other
Total retail	109,445,754	7,428,501	5,551,863	-	-	2,105,053	451,355	128,244	-	-
Housing Loans	45,865,720	3,109,195	2,718,461	-	-	905,200	121,207	15,278	-	-
Cash Loans	37,774,843	1,907,484	1,211,503	-	-	277,545	113,936	2,982	-	-
Agricultural Loans	11,697,740	2,104	47,414	-	-	282,684	-	-	-	-
Other Loans	4,359,654	68,335	62,117	-	-	198,889	7,477	1,000	-	-
Micro business	9,747,797	2,341,383	1,512,368	-	-	440,735	208,735	108,984	-	-
				-	-				-	-
Corporate clients	64,849,738	7,336,338	18,356,644			15,571,641	251,644	145,069		
Agriculture	2,867,120	114,191	25,929	-	-	9,002	-	-	-	-
Manufacturing industry	9,230,133	200,408	1,254,328	-	-	2,847,426	10,548	4,185	-	-
Electric Energy	3,529,051	18,060	1,411,247	-	-	0	-	-	-	-
Construction	11,980,938	428,452	621,540	-	-	669,404	144,446	-	-	-
Wholesale and Retail	16,641,657	1,865,020	1,773,971	-	-	672,784	96,650	140,884	-	-
Service Activites	7,196,670	1,115,856	1,286,707	-	-	4,632,020	-	-	-	-
Real Estate Activities	6.736.204	-	1,138	-	-	1,356,389	-	-	-	-
Other	6,667,965	3,594,351	11,981,784	-	-	5,384,616	-	-	-	-
				-	-				-	-
Total	174,295,492	14,764,839	23,908,507			17,676,694	702,999	273,313		
									-	-
Due from banks	4,559,092	29,348	1,073,136	11,677,416	1,530,781	-	-	-		

Depending on general economic trends and developments in individual industrial sectors, the Group members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

In thousands of RSD

31.12.2019	Stage 1 and 2					Stage 3				
	Serbia	Montenegro	BiH	EU	Other	Serbia	Montenegro	BiH	EU	Other
Total retail	98,520,996	6,679,656	5,222,611	-	-	2,229,165	382,523	133,155	-	-
Housing Loans	40,701,019	2,761,498	2,407,849	-	-	993,518	114,723	27,261	-	-
Cash Loans	34,825,982	1,692,782	1,100,484	-	-	250,163	59,118	-	-	-
Agricultural Loans	9,437,889	3,061	49,664	-	-	275,822	195	0	-	-
Other Loans	4,838,289	74,895	59,693	-	-	159,663	6,601	282	-	-
Micro business	8,717,817	2,147,420	1,604,921	-	-	549,999	201,886	105,612	-	-
Corporate clients	68,444,773	6,534,976	18,818,701	-	-	13,613,500	248,611	191,338	-	-
Agriculture	4,109,650	98,663	27,141	-	-	60,217	-	-	-	-
Manufacturing industry	10,095,988	233,336	992,685	-	-	2,958,078	11,337	4,218	-	-
Electric Energy	91,586	-	1,542,305	-	-	-	-	-	-	-
Construction	8,374,803	292,444	691,285	-	-	673,359	140,614	-	-	-
Wholesale and Retail	22,255,366	1,773,650	1,694,507	-	-	845,424	96,660	187,120	-	-
Service Activites	11,704,882	1,025,350	1,302,904	-	-	1,579,328	-	-	-	-
Real Estate Activities	4.150.620	27,480	935	-	-	1,031,805	-	-	-	-
Other	7,661,878	3,084,053	12,566,939	-	-	6,465,289	-	-	-	-
Total	166,965,769	13,214,632	24,041,312	-	-	15,842,665	631,134	324,493	-	-
Due from banks	5,750,812	48,430	1,723,150	6,029,926	13,442,662	-	-	-	-	214,417

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

In thousands of RSD

	31.12.2020		31.12.2019	
	Gross	Net	Gross	Net
Financial assets:				
-at fair value trough profit and loss	8,308,106	8,308,106	10,289,019	10,289,019
-at fair value trough other comprehensive income	149,288,763	149,288,310	134,191,014	134,190,412
-at amortized cost	846,000	842,240	-	-
Total	158,442,869	158,438,656	144,480,033	144,479,431

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

Financial assets at fair value through other comprehensive income are placements for which there is an intent to hold them in an unspecified period of time and which can be sold due to liquidity needs or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, the Republic of Srpska, the Republic of Montenegro, municipality bonds and bonds of other banks.

Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market, as well as applying internally developed models in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

4.1.7. Collateral against credit risk (collateral)

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

In thousands of RSD

31.12.2020	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other collaterals*	Total	Real Estate	Deposits	Guarantees	Other Collaterals*	Total
Housing Loans	47,244,684	17,609	-	2,260,068	49,522,361	1,391,394	1,604	-	28,183	1,421,181
Cash Loans	911,132	597,544	-	9,683,095	11,191,771	129,585	10,461	-	236,209	376,255
Agricultural Loans	4,325,456	9,686	32,445	6,545,709	10,913,296	91,102	3,269	163	104,263	198,797
Other Loans	77,488	2,479	-	111,040	191,007	3,579	439	-	11,059	15,077
Micro business	1,686,614	579,640	3,893,416	3,205,152	9,364,822	2,036,465	202,244	160,019	887,102	3,285,830
Total retail	54,245,374	1,206,958	3,925,861	21,805,064	81,183,257	3,652,125	218,017	160,182	1,266,816	5,297,140
Large corporate clients	12,429,986	178,214	3,416,827	8,803,852	24,828,878	5,916,221	-	220,144	570,802	6,707,167
Middle corporate clients	3,505,728	380,380	2,016,709	2,834,111	8,736,929	750,358	-	193,408	429,101	1,372,867
Small corporate clients	1,936,801	198,863	858,063	1,183,515	4,177,242	639,080	92	72,959	189,441	901,572
State owned clients	1,535,845	144,884	7,018,958	15,584,509	24,284,196	19,403	-	-	730,152	749,555
Other	3,526	-	-	6,899,846	6,903,371	2,346	-	-	-	2,346
Corporate clients	19,411,886	902,341	13,310,557	35,305,832	68,930,616	7,327,407	92	486,512	1,919,496	9,733,507
Total	73,657,260	2,109,299	17,236,418	57,110,896	150,113,873	10,979,532	218,109	646,694	3,186,312	15,030,647
Of which: restructured	-	-	-	-	-	1,542,901	-	-	172,863	1,715,764
Due from banks	-	1,804	-	-	1,804	-	-	-	-	-

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

In thousands of RSD

31.12.2020	Stage 3				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	990,207	-	-	37,896	1,028,103
Cash Loans	47,106	813	-	102,346	150,265
Agricultural Loans	198,608	-	-	65,705	264,313
Other Loans	3,453	510	-	14,953	18,916
Micro business	475,890	-	11,236	254,708	741,834
Total retail	1,715,264	1,323	11,236	475,608	2,203,431
Large corporate clients	5,324,586	60	-	1,098,637	6,423,283
Middle corporate clients	448,481	-	-	85,311	533,792
Small corporate clients	506,545	-	20,213	565,410	1,092,168
State owned clients	568,989	-	-	2,856,667	3,425,656
Other	2,755,594	-	-	122	2,755,716
Corporate clients	9,604,195	60	20,213	4,606,147	14,230,615
Total	11,319,459	1,383	31,449	5,081,756	16,434,047
Of which: restructured	6,113,585	-	-	3,285,902	9,399,487
Due from banks	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

In thousands of RSD

	Stage 1					Stage 2				
31.12.2019	Real Estate	Deposits	Guarantees	Other Collaterals*	Total	Real Estate	Deposits	Guarantees	Other Collaterals*	Total
Housing Loans	42,011,469	28,679	-	2,279,422	44,319,570	1,054,123	-	-	25,479	1,079,602
Cash Loans	717,285	406,047	-	10,208,333	11,331,665	66,485	11,129	-	157,445	235,059
Agricultural Loans	3,961,305	14,598	5,704	3,970,801	7,952,408	52,376	845	-	66,788	120,009
Other Loans	-	4,574	-	89,540	94,114	-	568	-	8,836	9,404
Micro business	3,153,802	827,954	40,724	6,329,544	10,352,024	630,080	112,143	-	506,136	1,248,359
Total reatail	49,843,861	1,281,852	46,428	22,877,640	74,049,781	1,803,064	124,685	-	764,684	2,692,433
Large corporate clients	16,741,366	192,603	2,469,948	11,451,023	30,854,940	3,423,605	-	-	754,322	4,177,927
Middle corporate clients	3,858,788	496,528	29,424	4,725,651	9,110,391	100,728	-	-	164,339	265,067
Small corporate clients	2,186,120	195,714	-	2,563,339	4,945,173	162,885	17,599	-	51,294	231,778
State owned clients	838,223	721,789	6,223,487	16,137,378	23,920,877	-	-	-	413,490	413,490
Other	25,320	40	-	7,645,774	7,671,134	-	-	-	-	-
Corporate clients	23,649,817	1,606,674	8,722,859	42,523,165	76,502,515	3,687,218	17,599	-	1,383,445	5,088,262
Total	73,493,678	2,888,526	8,769,287	65,400,805	150,552,296	5,490,282	142,284	-	2,148,129	7,780,695
Of which: restructured	565,713	-	-	-	565,713	286,253	5,242	-	760,332	1,051,827
Due from banks	-	-	-	-	-	-	-	-	-	-

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

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

In thousands of RSD

	Stage 3				
31.12.2019	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	1,093,919	-	-	29,022	1,122,941
Cash Loans	17,082	12,032	-	97,023	126,137
Agricultural Loans	200,440	-	-	54,740	255,180
Other Loans	-	302	-	477	779
Micro business	644,528	246	-	178,915	823,689
Total retail	1,955,969	12,580	-	360,177	2,328,726
Large corporate clients	5,176,426	40	-	1,093,501	6,269,967
Middle corporate clients	1,591,106	-	-	211,115	1,802,221
Small corporate clients	1,321,978	-	-	216,886	1,538,864
State owned clients	7,306	-	334	-	7,640
Other	2,759,593	-	-	185,635	2,945,228
Corporate clients	10,856,409	40	334	1,707,137	12,563,920
Total	12,812,378	12,620	334	2,067,314	14,892,646
Of which: restructured	6,901,878	-	-	945,958	7,847,836
Due from banks	-	-	-	-	-

4 RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

In thousands of RSD

	Decembar 31, 2020	Decembar 31, 2019
Less than 50%	24,302,835	29,944,251
50% - 70%	32,231,240	23,291,285
71% - 100%	32,184,901	25,410,056
101% - 150%	3,985,473	6,493,745
More than 150%	7,006,842	7,625,676
Total exposure	99,711,290	92,765,013
Average LTV	63.98%	62.79%

4.1.8. Foreclosed assets

Foreclosed assets by Group members are presented in the following review:

In thousands of RSD

	Residential Premises	Business Premises	Equipment	Lannd and Forests	Total
31.12.2019	573,442	3,802,527	252,857	466,535	5,095,361
Acquisition	15,345	306	-	1,308	16,959
Sale	-	(4,294)	-	-	(4,294)
Transfer to assets held for sale	(282.222)	-	-	-	(282,222)
Other	(53)	378,422	(684)	127,504	505,188
31.12.2020	306,511	4,176,961	252,173	595,347	5,330,992
Impairment allowance	185,243	1,271,677	100,382	177,658	1,734,960
Net	121,268	2,905,284	151,791	417,689	3,596,032

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

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

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

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

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

In order to minimize liquidity risk, the Group:

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

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

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

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

• GAP analysis;
• Ratio analysis;
• Stress test.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

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

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

The Group adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month. In addition to harmonization with the externally defined liquidity limit, the Group adjusts its operations with a narrower liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month. Starting from June 30, 2017 the Group has aligned its operations with a liquidity coverage ratio in all currencies, which maintains at a level not lower than 100%.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	2020	2019	2020	2019	2020	2019
As at Decembar 31	3.94	3.95	3.81	3.70	402%	402%
Average for the period	3.90	4.02	3.78	3.76	397%	430%
Maximum for the period	3.94	4.08	3.81	3.82	402%	457%
Minimum for the period	3.87	3.95	3.74	3.70	392%	402%

During 2020, the liquidity indicator, the narrow liquidity indicator and the liquidity coverage ratio ranged above the defined limits.

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

Compliance with internally defined liquidity limits on the last day:

	Limits	2020	2019
GAP up to 1 month / Total assets	Max (10%)	0.10%	0.79%
Cumulative GAP up to 3 months / Total assets	Max (20%)	(1.02%)	0.57%

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

In thousands of RSD

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2019

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash founds held with the central bank	76,654,402	-	-	-	-	76,654,402
Loans and receivables due from other banks and other financial institutions	25,483,656	80,092	362,010	1,064,247	-	26,990,005
Loans and receivables due from customers	11,978,158	10,183,514	46,219,216	90,715,809	49,137,461	208,234,158
Financial assets (securities)	3,302,920	4,939,204	14,730,475	101,561,560	19,945,272	144,479,431
Other assets	1,462,971	543,680	1,629,428	-	1,481	3,637,560
Total	118,882,107	15,746,490	62,941,129	193,341,616	69,084,214	459,995,556
Deposits and other liabilities due to banks, other financial institutions and central bank	3,871,373	734,462	1,720,994	1,991,777	-	8,318,606
Deposits and other liabilities due to customors	279,544,142	9,497,427	37,584,292	42,214,243	2,147,606	370,987,710
Other liabilities	1,343,932	286,909	11,165,002	799,932	153,963	13,749,738
Total	284,759,447	10,518,798	50,470,288	45,005,952	2,301,569	393,056,054
Net liquidity gap As of Decembar 31, 2019	(165,877,340)	5,227,692	12,470,841	148,335,664	66,782,645	66,939,502

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

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

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

In thousands of RSD

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

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at 31 December 2019.

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash founds held with the central bank	76,654,402	-	-	-	-	76,654,402
Loans and receivables due from other banks and other financial institutions	25,527,008	84,048	375,414	1,067,781	-	27,054,251
Loans and receivables due from customers	12,748,671	11,706,903	52,322,343	106,699,822	61,186,695	244,664,434
Financial assets (securities)	3,302,920	4,952,022	14,739,530	101,636,114	19,974,040	144,604,626
Other assets	1,487,502	543,680	1,629,428	-	1,481	3,662,091
Total	119,720,503	17,286,653	69,066,715	209,403,717	81,162,216	496,639,804
Deposits and other liabilities due to banks, other financial institutions and central bank	3,885,717	743,104	1,772,635	2,016,578	-	8,418,034
Deposits and other liabilities due to customors	279,717,476	9,625,405	38,110,196	43,743,888	2,578,893	373,775,858
Other liabilities	1,358,734	286,909	11,165,002	799,932	153,962	13,764,539
Total	284,961,927	10,655,418	51,047,833	46,560,398	2,732,855	395,958,431
Net liquidity gap As of Decembar 31, 2019	(165,241,424)	6,631,235	18,018,882	162,843,319	78,429,361	100,681,373

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

Market risks

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

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

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

4.3. Interest rate risk

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

The Group manages the following types of interest rate risk:

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

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

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

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

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

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

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

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

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

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

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

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

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

	Limits	2020	2019
Relative GAP	Max 15%	0.82%	1.48%
Coefficient of Disparity	0.75 – 1.25	1.01	1.02

During 2020, interest rate risk indicators moved within internally defined limits.

Compliance with internally defined limits of economic value of capital:

	2020	2019
On December 31st	3.06%	4.05%
Average for period	3.63%	4.36%
Maximum for period	4.20%	4.67%
Minimum for period	3.06%	4.05%
Limit	20%	20%

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:
Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2020.

In thousands of RSD

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

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2019

In thousands RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Ineterst Bearing	Total
Cash and cash founds held with the central bank	26,453,405	-	-	-	-	26,453,405	50,200,997	76,654,402
Loans and receivables due from other banks and other financial institutions	24,347,276	63,751	255,506	169,536	-	24,836,069	2,153,936	26,990,005
Loans and receivables due from customers	50,909,321	25,440,767	66,242,446	59,954,460	5,214,350	207,761,344	472,814	208,234,158
Financial assets (securities)	2,790,288	4,939,204	14,730,475	101,561,560	19,945,272	143,966,799	512,632	144,479,431
Other assets	33,120	-	-	-	-	33,120	3,604,440	3,637,560
Total	104,533,410	30,443,722	81,228,427	161,685,556	25,159,622	403,050,737	56,944,819	459,995,556
Deposits and other liabilities due to banks, other financial institutions and central bank	3,317,996	857,318	2,270,786	1,871,777	-	8,317,877	729	8,318,606
Deposits and other liabilities due to customors	274,556,488	12,441,701	50,839,691	29,883,050	1,990,101	369,711,031	1,276,679	370,987,710
Other liabilities	43,036	6,703	29,281	82,316	-	161,336	13,588,402	13,749,738
Total	277,917,520	13,305,722	53,139,758	31,837,143	1,990,101	378,190,244	14,865,810	393,056,054
Intrest rate GAP As of Decembar 31, 2019	(173,384,110)	17,138,000	28,088,669	129,848,413	23,169,521	24,860,493	42,079,009	66,939,502

4. RISK MANAGEMENT (continued)

4.3. Interest rate risk (continued)

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

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

Risk of interest rate changes

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

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

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

Report on GAP Interest Rate Risk of the Monetary Sub-balance on December 31, 2020 (continued)

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

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 bp.
2020		
As at December 31,	538,445	(538,445)
2019		
As at December 31,	443,617	(443,617)

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk

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

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

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

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

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

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

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

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

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

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

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

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

	2020	2019
Total risk foreign exchange position	6,993,596	6,835,647
Foreign exchange risk indicator	10.13%	10.61%
Regulatory limit	20%	20%

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

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

In thousandso of RSD

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

4. RISK MANAGEMENT (continued)

4.4. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at December 31, 2019

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currenc y Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash founds held with the central bank	35,176,192	215,451	6,240,389	6,811,297	48,443,329	-	-	-	28,211,073	76,654,402
Loans and receivables due from other banks and other financial institutions	7,534,947	3,228,890	867,795	3,131,909	14,763,541	-	-	-	12,226,464	26,990,005
Loans and receivables due from customers	23,952,264	-	-	16,651,360	40,603,624	117,831,474	-	60,074	49,738,986	208,234,158
Financial assets (securities)	63,201,598	13,217,165	1,799,460	901,863	79,120,086	173,617	-	-	65,185,728	144,479,431
Other assets	447,267	165,416	789	30,684	644,156	-	-	-	2,993,404	3,637,560
Total	130,312,268	16,826,922	8,908,433	27,527,113	183,574,736	118,005,091	-	60,074	158,355,655	459,995,556
Deposits and other liabilities due to banks, other financial institutions and central bank	943,333	77,890	43,341	4,118,082	5,182,646	30,331	-	-	3,105,629	8,318,606
Deposits and other liabilities due to customors	244,016,986	13,655,889	8,810,550	19,669,688	286,153,113	187,138	-	-	84,647,459	370,987,710
Other liabilities	1,979,742	96,272	99,406	488,834	2,664,254	882,332	-	-	10,203,152	13,749,738
Total	246,940,061	13,830,051	8,953,297	24,276,604	294,000,013	1,099,801	-	-	97,956,240	393,056,054
Net Currency Position, December 31, 2019	(116,627,793)	2,996,871	(44,864)	3,250,509	(110,425,277)	116,905,290	-	60,074	60,399,415	66,939,502

4. RISK MANAGEMENT (continued)

4.5. A review of the ten-day VaR

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

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

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

A review of the ten-day VaR with a confidence interval of 99% for 2020 and 2019 is shown as follows:

In thousands of RSD

	As at December 31	Average	Maximum	Minimal
2020				
Foreign currency risk	2,718	4,351	64,157	975
2019				
Foreign currency risk	9,542	9,052	28,214	800

4.6. Operational risk

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

The Group performs measurement and / or assessment of operational risk through a quantitative and /or qualitative assessment of the identified operational risk. The Group members conduct measurement of operational risk exposure through event logging, and self-evaluation. Self-assessment involves assessing risk exposure by organizational units in accordance with the map of identified operational risks by measuring the possible range, the importance to the business, and the frequency of events that can cause losses, by identifying the level of control that areas of business have against these risks and improvement measures.

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

4. RISK MANAGEMENT (continued)

4.6. Operational risk (continued)

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

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

4.7. Risks of investment

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

4.8. Risk of exposure

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.9. Country risk

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.10. Fair value of financial assets and liabilities

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

In thousand of RSD

	31.12.2020					31.12.2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets										
Cash and cash equivalents held with the Central Bank	86,892,070	86,892,070	86,892,070	-	-	76,654,402	76,654,402	76,654,402	-	-
Loans and receivables from banks and other financial organisations	18,865,482	18,865,482	18,865,482	-	-	26,990,004	26,990,004	26,990,004	-	-
Loans and receivables from clients	219,433,627	219,432,018	-	-	219,432,018	208,234,158	207,050,215		-	207,050,215
Other assets	6,806,000	6,808,144	6,808,144	-	-	7,602,611	7,602,611	7,602,611	-	
Securities held at amortized cost	842,240	842,240	-	-	842,240					
Financial Liabilities										
Deposits and other liabilities to banks, other financial organisations and central bank	8,096,190	8,096,190	5,140,177	-	2,956,013	8,318,606	8,318,606	3,658,811	-	4,659,795
Deposits and other financial liabilities to clients	406,192,067	405,924,829	-	-	405,924,829	370,987,710	370,854,153	-	-	370,854,153
Other liabilities	3,882,393	3,882,393	-	-	3,882,393	13,749,738	13,749,738	-	-	13,749,738

Fair value of investment property as at December 31, 2020, based on fair value appraisals made by certified appraisers, amounts to RSD 3,263,195 thousand (fair value as at December 31, 2019: RSD 3,124,035 thousand). During 2020, the Group sold one investment property.

Calculating the fair value of loans and loans to clients is estimated using the model of discounting cash flows, for loans and placements with fixed interest rates. Discount rates are based on current interest rates, which are offered for instruments under similar conditions to clients, approximately the same credit quality. Also, liabilities to customers with maturities fixed at a fixed interest rate are discounted taking into account the applicable terms and conditions in accordance with the type of deposit, term of deposit and currency.

4. RISK MANAGEMENT (continued)

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

For loans that are no longer approved, nor is it possible to approve (loans indexed to CHF), discounting was made at the same interest rates. Also, for loans subsidized by the state, with a fixed interest rate, discounting was made at the same rate, as members of the Group would not approve loans at low interest rates if there was no subsidization of part of the interest by the state. All loans and liabilities with a variable interest rate are in accordance with the applicable market conditions and Business Policy of the members of the Group.

Financial instruments measured at fair value

In thousands of RSD

	31.12.2020				31.12.2019			
Financial assets	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit and loss in RSD	508,922	4,873,616	-	5,382,538	512,632	4,877,762	-	5,390,394
Financial assets at fair value through profit and loss in foreign currency	-	2,925,568	-	2,925,568	174,460	4,724,165	-	4,898,625
Financial assets at fair value through other comprehensive income in RSD	-	81,955,812	-	81,955,812	-	59,800,166	-	59,800,166
Financial assets at fair value through other comprehensive income in foreign currency	19,181,058	48,045,683	105,757	67,332,498	13,444,011	60,772,618	173,617	74,390,246
Total	19,689,980	137,800,679	105,757	157,596,416	14,131,103	130,174,711	173,617	144,479,431

Stage 1 comprises financial instruments with whom it can be traded on the stock exchange, while Stage 2 contains securities which fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market (auctions).

The fair value of assets for which no direct trading information is available is assigned to Stage 3.

4. RISK MANAGEMENT (continued)

4.11. Capital management

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

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

The main goals of managing the capital are:

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

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

4. RISK MANAGEMENT (continued)

4.11. Capital management

In thousands of RSD

Capital adequacy ratios	31.12.2020	31.12.2019
Tier 1 capital	70,902,630	67,662,413
Common Equity Tier 1 capital	70,529,120	67,288,903
Additional Tier 1 capital	373,510	373,510
Deductible items of capital	(1,881,099)	(2,800,518)
Capital	69,021,531	64,861,895
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	199,051,603	198,702,756
Risk exposure amount for operational risk	36,826,475	35,269,629
Risk exposure amount for market isks	3,594,496	4,238,173
Capital adequacy ratio (min. 14.05%)	28.82%	27.23%
Tier 1 capital adequacy ratio (min. 12.05%)	28.82%	27.23%
Common Equity Tier 1 capital adequacy ratio (min. 10.55%)	28.67%	27.07%

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

4.11. Capital management (continued)

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

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

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

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- Calculation of stressed internal capital requirement for individual risks;
- Determining the total internal capital requirement;
- Comparison of the following elements:
    1. capital and available internal capital;
    2. minimum capital requirements and internal capital requirements for individual risks;
    3. the sum of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

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

Key sources of estimation uncertainty

Provisions for credit losses

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

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

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

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.
Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

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

5. USE OF ASSESSMENT (continued)

Individual assessment

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

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

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

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

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

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

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

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

5. USE OF ASSESSMENT (continued)

Group assessment

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

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

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

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

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

Determining the probable loss on off-balance sheet items

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

5. USE OF ASSESSMENT (continued)

Determination of fair value

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

The Group performs valuation of financial instruments by:

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

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

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

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

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

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

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

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

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

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

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

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

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

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

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

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

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

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

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

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

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

6. SEGMENT REPORTING

6.1. Reporting by strategic segments - members of the Group

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

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

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

The Group has four members representing strategic organizational parts:

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

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

The balance sheet sum of the Parent bank amounts to 90.98%of the total balance sheet sum of the consolidated balance sheet (2019: 90.14%).

The balance sheet sum of Komercijalna banka ad Podgorica, amounts to 3.42% of total consolidated assets (2019: 3.67%), Komercijalna banka ad Banja Luka 5.57% (2019: 6.15% (and KomBank INVEST 0.03 % (2019: 0.04%).

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

6. SEGMENT REPORTING (continued)

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

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

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

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

As at December 31, 2020 the following reclassifications are made in the balance sheet and profit and loss accounts of the Group members, except for the member of KomBank INVEST, which did not have the effect of reclassification:

Balance sheet

	In thousands of RSD
Balance sheet sum of Parent bank	459,427,723
Reclassification for impairment allowance related to equity instruments in the subsidiary	2,047,191
Reclassification for impairment allowance that relate to placements to subsidiary banks	586
Reclassified balance sheet sum of Parent bank	461,475,500
Statutory balance sheet sum of KB Banja Luka	27,719,405
Dedutiction for the accrued income for receivables measured at amotised cost using EIR method	(51,187)
Reclassification for the impairment allowance that relates to the Parent Bank	483
Reclassification for securities - yield curve method according to the methodology of the Parent bank, and according to the regulator, the method of the adjusted yield curve	182,505
Interest for impairment at Stage 3 receivables (per regulation is recorded in the off-balance sheet)	21,093
Valuation of materially acquired assets (acquisition) – by the regulator, valuation of assets per net value of receivables, according to the the Parent bank methodology, the gross value of receivables	5,340
Impairment allowance - regulator methodology	573,801
Impairment allowance - Parent bank’s methodology	(347,536)
Netting of deferred tax assets and liabilities	(775)
Reclassified balance sheet sum in accordance with the Parent Bank’s model	28,103,129

6. SEGMENT REPORTING (continued)

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

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

	In thousands of RSD
Statutory balance sheet KB Podgorica	18,139,373
Right of use assets (effects of the adoption of IFRs 16)	(3,604)
Reclassification for the impairment allowance that relates to the Parent bank	743
Netting of deferred tax assets and liabilities	(15,830)
Reclassified balance sheet sum in accordance with the Parent bank's model	18,120,682

PROFIT AND LOSS STATEMENT

	In thousands of RSD
Result of Parent Bank	2,928,761
Reclassification for the effect of net change in impairment allowance of placements that are related to subsidiary banks (negative effect)	(460)
Reclassification for the effect of net change in provisions for losses on off-balance sheet assets (negative effect)	(16,874)
Reclassified result of Parent bank	2,911,427

Statutory result of KB Banja Luka	80,099
Reclassification for the effect of net change in impairment allowance of placements that are related to Parent bank (positive effect)	129
Effect due to differences between adopting internal and regulatory credit risks methodology - calculation of impairment allowance (negative effect)	(41,143)
Effect due to the adoption of internal credit risks methodology - interest income for impairment stage 3 clients is not recognized in the Profit and loss statement per regulation – derecognition	1,965
Reclassified result of KB Banja Luka	41,050

Statutory result of KB Podgorica	59,644
Reclassification for the effect of net change in impairment allowance of placements that are related to Parent bank (negative effect)	(1,438)
Leasing (IFRS 16) – amortization and interest cost	(16)
Reclassification – IAS 19 (bonuses for 2019)	(9,816)
Reclassified result of KB Podgorica	48,374

During the consolidation, the elimination of all mutual relations from the balance sheet was carried out in the amount of RSD 7,578,111 thousand (2019: RSD 6,675,149 thousand). From income statement total income in the amount of RSD 92,069 thousand (2019: RSD 29,500 thousand) and expenditures in the amount of RSD 91,624 thousand (2019: RSD 22,641 thousand).

6. SEGMENT REPORTING (continued)

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

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

Standalone reclassified balance sheets as at December 31, 2020:

	In thousands of RSD
KB Beograd	461,475,500
KB Podgorica	18,120,682
KB Banja Luka	28,103,129
KomBank Invest	174,062
Summed reclassified unconsolidated balance sheets	507,873,374

Standalone reclassified income statements (before tax) as at December 31, 2020:

	In thousands of RSD
KB Beograd	4,175,512
KB Podgorica	54,690
KB Banja Luka	48,016
KomBank INVEST	681
Summed reclassified unconsolidated income statement (before tax)	4,278,899

6.1.b. Overview of intercompany transactions

Balance sheet 2020

Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet *(In thousands of RSD)*
507,873,374	7,578,111	500,295,263
Cash / Payables	5,549	
Placements / Liabilities	2,091,674	
Equity stakes / Capital	5,480,888	

Income Statement 2020

Collective unconsolidated profit in the Income statement (before tax)	Amount of consolidation of the income statement		Consolidated profit (before tax) *(In thousands of RSD)*
	Income	Expense	
4,278,899	92,069	91,624	4,278,454
Interest	16,902	16,902	
Fees	8,997	8,997	
Other income/expenses	295	295	
Exchange rate differences (reclassified to equity)	65,875	65,430	

6. SEGMENT REPORTING (continued)

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

6.1.b. Overview of intercompany transactions (continued)

In thousands of RSD

Consolidated profit (before tax)	4,278,454
Profit tax	(7,309)
Net loss on deferred taxes	(1,269,634)
Consolidated profit (after tax)	3,001,511

Profit and loss on deferred taxes

In the profit and loss statement as at 31 December 2020, the Group disclosed a net loss based on the effects of deferred taxes in the amount of RSD 1,269,634 thousand. The Parent bank disclosed a net loss on the same basis in the amount of RSD 1,264,085 thousand, KB Podgorica net loss in the amount of RSD 5,814 thousand, KomBank INVEST net lossin the amount of RSD 426 thousand and KB Banja Luka net loss in the amount of RSD 161 thousand.

Profit tax

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

The disclosed profit tax at the Group level amounting to RSD 7,309 thousand refers to subsidiary banks, i.e. KB Podgorica RSD 502 thousand, KB Banja Luka in the amount of RSD 6,806 thousand and KomBank INVEST in the amount of RSD 1 thousand.

The Parent bank did not disclose profit tax, due to the right to use the tax credit from previous years.

Balance sheet 2019

In thousands of RSD

Collective unconsolidated balance sheet	Balance sheet consolidation balance	Consolidated balance sheet
482,431,043	6,675,149	475,755,894
Cash / Payables	8,378	
Placements / Liabilities	1,185,883	
Equity stakes / Capital	5,480,888	

Income Statement 2019

In thousands of RSD

Collective unconsolidated profit in the Income statement (before tax)	Amount of consolidation of the income statement		Consolidated profit (before tax)
	Income	Expense	
7,733,187	29,500	22,641	7,726,328
Interest	4,320	4,320	
Fees	10,514	10,514	
Other income/expenses	519	519	
Exchange rate differences(reclassified to equity)	14,147	7,288	

6. SEGMENT REPORTING (continued)

6.1. Reporting by Strategic Segments - Members of the Group

6.1.c. Overview of the activities of Strategic Segments

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

A. BALANCE SHEET - CONSOLIDATED on December 31, 2020

In thousand RSD

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

6. SEGMENT REPORTING (continued)

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

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

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

In thousands of RSD

LIABILITIES AND EQUITY	Komercijalna banka a.d. Beograd	Komercijalna banka a.d. Podgorica	Komoercijalna banka a.d. Banja Luka	KomBank INVEST a.d. Beograd	Total
Deposits and other liabilities due to bank, other financial institutions and the Central bank	3,733,731	286,632	4,075,827	-	8,096,190
Deposits and other financial liabilities to clients	372,699,401	14,459,196	19,033,470	-	406,192,067
Provisions	2,528,051	110,585	42,251	15,459	2,696,346
Currents tax liabilities	-	502	1,577	-	2,079
Deffered tax liabilities	147,400	8,332	20,841	-	176,573
Other liabilities	4,975,476	178,329	415,181	892	5,569,878
Total liabilities	384,084,059	15,043,576	23,589,147	16,351	422,733,133
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/loss	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 participation	-	-	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

6. SEGMENT REPORTING (continued)

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

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

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2019

In thousands of RSD

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

6. SEGMENT REPORTING (continued)

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

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

A. BALANCE SHEET - CONSOLIDATED as at December 31, 2019 (continued)

In thousands of RSD

LIABILITIES AND EQUITY	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 due to bank, other financial institutions and the Central bank	3,917,547	280,246	4,120,813	-	8,318,606
Deposits and other financial liabilities to clients	335,317,154	15,189,836	20,480,720	-	370,987,710
Provisions	2,310,039	140,546	20,370	12,455	2,483,410
Currents tax liabilities	-	1,949	724	-	2,673
Deffered tax liabilities	-	10,945	21,404	-	32,349
Other liabilities	13,861,230	215,937	481,686	717	14,559,570
Total liabilities	355,405,970	15,839,459	25,125,717	13,172	396,384,318
Equity					
Share capital and premium	40,034,550	-	-	-	40,034,550
Profit/loss	8,859,734	(614,040)	350,089	15,781	8,611,564
Reserves	29,866,059	616,591	242,429	313	30,725,392
Non-controlling participation	-	-	70	-	70
Total capital	78,760,343	2,551	592,588	16,094	79,371,576
Total liabilities and equity	434,166,313	15,842,010	25,718,305	29,266	475,755,894

6. SEGMENT REPORTING (continued)

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

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

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

In thousands of RSD

	Komercijalna banka a.d.Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	Komabnk INVEST a.d. Beograd	Total
Interest income	13,185,934	724,595	820,920	536	14,731,985
Interest expenses	(1,130,408)	(116,409)	(197,145)	-	(1,443,962)
Net interest gains	12,055,526	608,186	623,775	536	13,288,023
Income from fees and commissions	6,688,682	225,244	264,867	26,692	7,205,485
Expenses from fees and commissions	(1,820,743)	(46,617)	(71,331)	(272)	(1,938,963)
Net gains from fees and commissions	4,867,939	178,627	193,536	26,420	5,266,522
Net gains from changes in fair value of financial instruments	95,629	-	-	2,417	98,046
Net gains from derecognition of the financial instruments measured at fair value	157,796	3,068	13,526	9	174,399
Net income/(expense) from exchange rate differences and effects of contractual currency clause	(61,471)	74,026	5,426	(1)	17,980
Net expense from reduction in impairment of financial assets not measured at fair value through income statement	(1,089,366)	(94,687)	(80,183)	-	(1,264,236)
Other operating income	211,094	5,468	10,535	-	227,097
Total operating income	16,237,147	774,688	766,615	29,381	17,807,831
Selaries, salary compesations and other personal expenses	(5,819,946)	(288,339)	(368,040)	(15,465)	(6,491,790)
Depreciation costs	(977,383)	(89,651)	(107,505)	(49)	(1,174,588)
Other income	859,417	29,789	32,384	12	921,602
Other expenses	(6,211,126)	(297,400)	(265,220)	(10,855)	(6,784,601)
Profit/Loss before taxes	4,088,109	129,087	58,234	3,024	4,278,454
Profit tax	-	(502)	(6,806)	(1)	(7,309)
Profit/Loss on deffered taxes	(1,264,085)	(5,814)	(161)	426	(1,269,634)
Profit/Loss for the year	2,824,024	122,771	51,267	3,449	3,001,511

Within the stated consolidated profit, profit attributable to non-contriling interest is RSD 1 thousand.

6. SEGMENT REPORTING (continued)

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

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

B. INCOME STATEMENT - CONSOLIDATED for the year ended December 31, 2019

In thousands of RSD

	Komercijalna banka a.d.Beograd	Komercijalna banka a.d. Podgorica	Komercijalna banka a.d. Banja Luka	Komabnk INVEST a.d. Beograd	Total
Interest income	13,628,713	649,616	819,284	578	15,098,191
Interest expenses	(1,022,932)	(104,216)	(200,525)	-	(1,327,673)
Net interest gains	12,605,781	545,400	618,759	578	13,770,518
Income from fees and commissions	7,114,715	239,441	282,082	26,016	7.662,254
Expenses from fees and commissions	(1,795,434)	(54,360)	(85,067)	(269)	(1,935,130)
Net gains from fees and commissions	5,319,281	185,081	197,015	25,747	5,727,124
Net gains from changes in fair value of financial instruments	71,614	-	-	3,444	75,058
Net gains from derecognition of the financial instruments measured at fair value	353,490	-	-	12	353,502
Net income/(expense) from exchange rate differences and effects of contractual currency clause	45,516	4,292	(5,568)	-	44,240
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1,614,640	(69,092)	42,128	-	1,587,676
Net losses from derecognition of the financial instruments measured at amortised cost	(579,933)	-	-	-	(579,933)
Other operating income	150,802	5,292	10,452	-	166,546
Total operating income	19,581,191	670,973	862,786	29,781	21,144,731
Selaries, salary compesations and other personal expenses	(4,917,532)	(274,340)	(330,904)	(15,166)	(5,537,942)
Depreciation costs	(1,005,837)	(82,264)	(105,369)	(10)	(1,193,480)
Other income	720,795	82,413	7,680	19	810,907
Other expenses	(6,923,772))	(282,939)	(281,436)	(9,741)	(7,497,888)
Profit/Loss before taxes	7,454,845	113,843	152,757	4,883	7,726,328
Profit tax	-	(1,949)	(12,137)	(2)	(14,088)
Profit/Loss on deffered taxes	687,074	(740)	(767)	2,058	687,625
Profit/Loss for the year	8,141,919	11,154	139,853	6,939	8,399,865

Within the stated consolidated profit, profit attributable to non-contriling interest is RSD 2 thousands.

6. SEGMENT REPORTING (continued)

6.2. Operational segments report - business lines

The Parent bank has three operating segments:

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

Since the dependent members of the Group operate as independent entities in their local markets and that the results thus obtained are used to measure their business performance, that the business of individual members of the Group as strategic segments is shown under note 6.1, and that the Parent bank is more of 90% of the consolidated balance sheet, for reporting purposes by operational segments at the Group level, dependent members of the Group are shown under a single segment (Subsidiaries).

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

The COVID-19 pandemic had a significant impact on the result in 2020, as well as the measures prescribed by the competent regulatory bodies in the member countries of the Group.
In addition, the result of the Parent Bank was influenced by the net expenses of provisioning for litigation liabilities in the total amount of RSD 232,190 thousand (a significant part of the position of other net expenses for retail transactions relate to net expenses for provisions for court liabilities, while for legal transactions to persons, the greater part of the position of other net income refers to net income from the cancellation of unused provisions for litigation).

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

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

Direct operating expenses at the Group level amount to RSD 8,875,517 thousand and account for 69% of the total operating costs. Direct operating costs mostly comprise costs that are directly related to segment segments (salaries, rental costs, depreciation costs, marketing and other costs), and to a lesser extent they are also costs that are allocated to segments based on a management decision.

The segment of deals with the population of the Parent bank refers to the amount of RSD 5,835,276 thousand of direct costs (66% of the total direct costs of the Group), which is a consequence of the large business network and the number of employees in the work with the population.

In accordance with the above said, the Group achieved profit before tax in the business year 2020 in the amount of RSD 4,278,454 thousand.

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2020 is shown below:

In thousands of RSD

31.12.2020	Operations with retail sector Parent bank	Operations with corporate sector Parent bank	Investment and interbank operations Parent bank	Other Parent bank	Subsidiaries	Adjustments and consolidation	Total of the Group (consolidated)
Revenues and expenses							
Interest incomes	6,904,573	2,151,235	4,130,126	-	1,546,051	-	14,731,985
Interest expenses	(772,562)	(170,956)	(171,116)	(15,774)	(313,554)	-	(1,443,962)
Net interest gains	6,132,011	1,980,279	3,959,010	(15,774)	1,232,497	-	13,288,023
Net income/expenses from related party transactions	-	-	13,764	-	(13,764)	-	-
Net fees	3,627,660	738,724	501,555	-	398,583	-	5,266,522
Net fees from related party transactions	-	-	7,469	-	(7,469)	-	-
Profit before impairment alloowance	9,759,671	2,719,003	4,481,798	(15,774)	1,609,847	-	18,554,545
Net gains/losses from impairment allowance	(186,045)	(903,135)	(186)	-	(174,870)	-	(1,264,236)
Impairmet allowance from related party transactions	-	-	(17,334)	-	1,308	(18,642)	-
Profit before operating expensses	9,573,626	1,815,868	4,498,946	(15,774)	1,436,285	(18,642)	17,290,309
Direct operating expenses	(5,835,276)	(1,845,682)	(229,328)	-	(965,231)	-	(8,875,517)
Net exchange rate gain/loss	-	-	(61,471)	-	79,451	-	17,980
Net exchange difference from related party transactions	-	-	65,875	-	(65,430)	(445)	-
Net other income/expenses	(1,143,961)	673,586	296,328	-	59,216	-	(114,831)
Net other income/expenses from related party transactions	98	98	98	-	(294)	-	-
Profit before indirect operating expenses	2,594,487	643,870	4,570,448	(15,774)	543,997	(19,087)	8,317,941
Indirect operating expenses	(2,027,685)	(1,286,221)	(286,279)	-	(439,302)	-	(4,039,487)
Profit before taxes	566,802	(642,351)	4,284,169	(15,774)	104,695	(19,087)	4,278,454

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

In thousands of RSD

31.12.2020	Operations with retail sector Parent bank	Operations with corporate sector Parent bank	Investment and interbank operations Parent bank	Other Parent bank	Subsidiaries	Adjustments and consolidation	Total of the Group (consolidated)
Assets per segment							
Cash and cash equivalents	-	-	80,045,107	-	6,846,952	11	86,892,070
Cash from related party transactions	-	-	-	-	5,549	(5,549)	-
Due from banks	-	-	17,300,746	-	1,562,936	1,801	18,865,483
Due from banks from related party transactions	-	-	841,324	-	1,250,035	(2,091,359)	-
Due from customers	109,884,102	79,411,987	-	-	30,137,538	-	219,433,627
Investment securities	-	-	153,776,323	-	4,479,827	182,506	158,438,656
Investment in subsidiaries	-	-	3,433,697	-	-	(3,433,697)	-
Other	-	-	-	14,734,122	1,931,305	-	16,665,427
Other from related parties transactions	-	-	-	315	-	(315)	-
	109,884,102	79,411,987	255,397,197	14,734,437	46,214,142	(5,346,602)	500,295,263
Liabilities per segment							
Liabilities to banks	-	-	3,733,730	-	4,362,460	-	8,096,190
Liabilities to banks from related parties transactions	-	-	1,255,585	-	841,324	(2,096,909)	-
Liabilities to customers	310,252,041	47,903,374	14,543,986	-	33,492,666	-	406,192,067
Other	-	-	-	7,652,144	793,949	(1,217)	8,444,876
Other from related parties transaction	-	-	-	-	315	(315)	-
	310,252,041	47,903,374	19,533,301	7,652,144	39,490,714	(2,098,441)	422,733,133

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

The report for operational segments for 2019 is shown below:

In thousands of RSD

31.12.2019	Operations with retail sector Parent bank	Operations with corporate sector Parent bank	Investment and interbank operations Parent bank	Other Parent bank	Subsidiaries	Adjustments and consolidation	Total of the Group (consolidated)
Revenues and expenses							
Interest incomes	6,980,294	2,189,786	4,458,633	-	1,469,478	-	15,098,191
Interest expenses	(705,481)	(211,120)	(86,797)	(19,534)	(304,741)	-	(1,327,673)
Net interest gains	6,274,813	1,978,666	4,371,836	(19,534)	1,164,737	-	13,770,518
Net income/expenses from related party transactions	-	-	(397)	-	397	-	-
Net fees	3,912,956	812,561	593,764	-	407,843	-	5,727,124
Net fees from related party transactions	-	-	9,715	-	(9,715)	-	-
Profit before impairment alloowance	10,187,769	2,791,227	4,974,918	(19,534)	1,563,262	-	19,497,642
Net gains/losses from impairment allowance	(479,074)	2,029,565	64,150	-	(25,637)	(1,328)	1,587,676
Impairmet allowance from related party transactions	-	-	811,290	-	-	(811,290)	-
Profit before operating expensses	9,708,695	4,820,792	5,850,358	(19,534)	1,537,625	(812,618)	21,085,318
Direct operating expenses	(5,818,576)	(1,734,099)	(206,586)	-	(946,679)	-	(8,705,940)
Net exchange rate gain/loss	-	-	45,516	-	(1,276)	-	44,240
Net exchange difference from related party transactions	-	-	(7,288)	-	14,147	(6,859)	-
Net other income/expenses	(1,101,763)	(136,598)	172,597	-	77,096	-	(988,668)
Net other income/expenses from related party transactions	173	173	173	-	(519)	-	-
Profit before indirect operating expenses	2,788,529	2,950,268	5,854,770	(19,534)	680,394	(819,477)	11,434,950
Indirect operating expenses	(1,868,570)	(1,158,962)	(277,817)	-	(403,273)	-	(3,708,622)
Profit before taxes	919,959	1,791,306	5,576,953	(19,534)	277,121	(819,477)	7,726,328

6. SEGMENT REPORTING (continued)

6.2. Operating Segment Report - Business Line (continued)

In thousands of RSD

31.12.2019	Operations with retail sector Parent bank	Operations with corporate sector Parent bank	Investment and interbank operations Parent bank	Other Parent bank	Subsidiaries	Adjustments and consolidation	Total of the Group (consolidated)
Assets per segment							
Cash and cash equivalents	-	-	67,558,219	-	9,096,165	18	76,654,402
Cash from related party transactions	-	-	-	-	8,378	(8,378)	-
Due from banks	-	-	24,644,242	-	2,342,212	3,550	26,990,004
Due from banks from related party transactions	-	-	89,716	-	1,095,830	(1,185,546)	-
Due from customers	98,957,179	81,895,385	-	-	27,381,594	-	208,234,158
Investment securities	-	-	138,469,551	-	5,957,273	52,607	144,479,431
Investment in subsidiaries	-	-	3,433,697	-	-	(3,433,697)	-
Other	-	-	-	17,332,119	2,065,778	2	19,397,899
Other from related parties transactions	-	-	-	337	-	(337)	-
	98,957,179	81,895,385	234,195,425	17,332,456	47,947,230	(4,571,781)	475,755,894
Liabilities per segment							
Liabilities to banks	-	-	3,917,547	-	4,401,059	-	8,318,606
Liabilities to banks from related parties transactions	-	-	1,104,209	-	89,716	(1,193,925)	-
Liabilities to customers	281,378,192	47,948,280	5,990,682	-	35,670,556	-	370,987,710
Subordinated liabilities							
Other	-	-	-	16,189,360	906,733	(18,091)	17,078,002
Other from related parties transaction	-	-	-	-	337	(337)	-
	281,378,192	47,948,280	11,012,438	16,189,360	41,068,401	(1,212,353)	396,384,318

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

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

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

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

(ii) Instruments with a fixed interest rate

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

8. NET INTEREST INCOME / (EXPENSES)

Net interest income / (expenses) consist of:

	In thousands of RSD	
	Year ended December 31,	
Income from:	2020	2019
Banks and REPO placements	63,848	171,122
Clients	10,393,677	10,444,419
Central Bank (liquid assets and required reserves deposits)	100,519	265,487
Securities	4,173,793	4,216,664
Based on the leasing contract – derecognition	148	499
Interest income	14,731,985	15,098,191
Expenses from:		
Deposits and other liabilities to banks and other financial oragnisation	(118,948)	(121,463)
Deposits to customers	(1,255,990)	(1,124,024)
Received loans	(41,590)	(48,678)
Based on the leasing contract	(27,434)	(33,508)
Interest expenses	(1,443,962)	(1,327,673)
Net interest income	13,288,023	13,770,518

Total interest income and expense accounted for using the effective interest method presented in the previous table relates to financial assets and liabilities not carried at fair value through profit and loss.

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

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

	In thousands of RSD Year ended December 31, 2020	2019
Income in RSD		
Fees from payment services	3,317,831	3,421,717
Fees for granted loans and guarantees	122,556	108,163
Fees for purchase of foreing currency	551,327	587,035
Fees for brokerage and custody services	26,004	34,531
Card payment fees	1,878,545	1,974,583
Fees based on inquiries in the Credit Bureau	50,928	79,848
Fees and commissions on other banking services	497,324	597,868
	6,444,515	6,803,745
Revenues in foreign currency		
Fees for payment services	356,028	388,144
Fees for granted loans and guarantees	52,962	63,093
Fees for brokerage and custody services	33,264	21,713
Card payment fees	229,823	296,192
Fees and commissions on other banking services	88,893	89,367
	760,970	858,509
	7,205,485	7,662,254
Expenses in RSD		
Fees for payment services	(167,750)	(150,202)
Foreign currency sale and purchase fees	(31,696)	(18,431)
Card payment fees	(437,974)	(557,488)
Credit Bureau fees	(47,893)	(72,110)
Fees and commissions on other banking services	(220,054)	(158,218)
	(905,367)	(956,449)
Expenses in foreign currency		
Fees for payment services	(144,936)	(148,667)
Card payment fees	(797,297)	(720,886)
Fees and commissions on other banking services	(91,363)	(109,128)
	(1,033,596)	(978,681)
	(1,938,963)	(1,935,130)
Net fee and commission income	5,266,522	5,727,124

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

Net gains from changes in fair value of financial instruments:

In thousands of RSD

	Year ended December 31, 2020	2019
Gains on the fair value adjustment of securities – investment units	7,339	12,090
Revenue from the change in the fair value of securities – treasury bills and bonds of the Republic of Serbia and other financial instruments	90,707	84,157
Total revenues	98,046	96,247
Expenses from the change in the fair value of derivatives held for trading - SWAP	-	(4,070)
Losses on the fair value adjustment of securities – investment units	-	(14)
Losses on the changes in value of securities - bonds	-	(17,105)
Total expenses	-	(21,189)
Net trading gain	98,046	75,058

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

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

In thousands of RSD

	Year ended December 31, 2020	2019
Gains arising from the derecognition of financial instruments valued at fair value trough other comprehensive income	87,372	238,373
Gains arising from the derecognition of financial instruments valued at fair value trough income statement	122,016	117,575
Gains on derecognition of derivatives valued at fair value trough income statement - FORWARD	4,537	3,789
Losses arising from derecognition of derivatives valued at fair value trough profit and loss – FORWARD	(202)	(69)
Losses arising from the derecognition of financial instruments valued at fair value trough profit and loss	(39,324)	(6,166)
Net gain	174,399	353,502

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

Gains arising from the derecognition of financial instruments valued at fair value through other comprehensive income in the amount of RSD 87,372 thousand relate to the bonds of the Republic of Serbia and bonds of the Republic of Srpska, in the amount of RSD 10,004 thousand in the local and RSD 77,368 thousand in the foreign currency.

Gains arising from the derecognition of securities at fair value through income statement in the amount of RSD 122,016 thousand relate to bonds of the Republic of Serbia in the amount of RSD 59,342 thousand, and bonds of the Republic of Srpska in foreign currency in the amount of RSD 51,086 thousand, investment units in RSD in the amount of 2,569 thousand and corporate bonds of public companies in the amount of RSD 9,019 thousand.
Gains on derecognition of derivatives valued at fair value trough income statement in the amount of RSD 4,335 thousands relate to income from sale of freign currency to commercial banks.

Losses arising from the derecognition of financial instruments valued at fair value through income statement in the amount of RSD 39,324 thousand relate to: bonds of the Republic of Serbia in the amount of RSD 35,394 thousand and bonds of the Republic of Srpska in foreign currency, in the amount of RSD 3,930 thousand.

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

In thousands of RSD

	Year ended December 31, 2020	2019
Positive currency clause effect - corporate clients	150,499	562,986
Positive currency clause effect - value adjustment of securities	191	808
Foreign exchange gains - value adjustement of liabilities	220	2,587
Positive currency clause effect - leasing contract	986	8,970
Positive currency clause effect	5,017,741	3,363,836
Total gains	5,169,637	3,939,187
Negative currency clause effect - corporate clients	(163,508)	(1,086,510)
Negative currency clause effect - value adjustment of securities	(211)	(2,035)
Foreign exchange losses – value adjustment of liabilities	(203)	(1,580)
Negative currency clause effect - leasing contract	(895)	(3,528)
Negative currency clause effect	(4,986,840)	(2,801,294)
Total losses	(5,151,657)	(3,894,947)
Net gains	17,980	44,240

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

Net impairment charges relate to:

	In thousands of RSD Year ended December 31, 2020	2019
Impairment allowance of financial assets measured at amortised cost	(4,882,682)	(6,292,787)
Provisions for off-balance sheet items	(250,361)	(282,248)
Impairment allowance of direct write-off of placements	(815)	(814)
Impairment allowance for debt securities measured through other comprehensive income	(73,896)	(104,869)
Losses airising from the modification of financial instruments	(342,435)	(14,631)
Reversal of impairment allowance of financial assets valued at amortised cost	3,631,798	6,753,161
Reversal of provisions for off-balance sheet items	211,244	380,863
Income from collection of previously written-off receivables	396,134	1,086,567
Reversal of allowance for debt securities measured through other comprehensive income	46,680	62,434
Revenues from modification of financial instruments	97	-
Total	(1,264,236)	1,587,676

Within the position of indirect write-offs of placements of balance sheet items, the Group recorded the impairment of material values acquired through collection of receivables in the amount of RSD 102,152 thousand, based on estimation of the value of real estate and equipment by authorized appraisers and in accordance with internal acts of the Group.

The Parent bank as at December 31, 2020, recognized losses from the modification of loan recivables in favor of the corrective account of recivables in the net amount of RSD 342,338 thousand, which were related to the effects of Moratorium 1 and 2 on the repayment of loan obligations of debtors in a pandemic caused by the COVID-19. In later accounting periods, credit risk analysis and impairment recording will be performed for the modified financial asset, while the determined loss from the modification recorded in the receivables adjustment account, by the effective interest rate method, will be transferred to the interest income account.

In the course of 2020 collected written-off receivables amount to RSD 396,134 thousand. Out of the total amount of collected written-off receivables, the largest part of the amount refers to the collection of receivables from off-balance sheet records for which a permanent write-off was previously made by transfer from the balance sheet to the off-balance sheet, out of which RSD 114,283 thousand relate to the collection from retail clients, and the rest in the amount of RSD 281,851 thousand are to collect loans from legal entities.

By the end of January 2021 the Group did not make materially significant collections from imapaired placements that would affect the reversal of impairment in accordance with the requirements of IAS 10.

Effects arising from the credit risks of debt securities in the amount of net loss of RSD 27,216 thousand the Group recognised in Equity, in the position losses of the debt instruments (Expenses of debt securities at fair value through Other Comprehensive Income in the amount of RSD 73,896 thousand and income on the same basis in amount of RSD 46,680 thousand). These positions are exempt from the structure of the table of changes in the impairment and provisions for off-balance sheet items.

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

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

	Loans and receivables due from banks (note 23.2)	Loans and receivables from clients (note 24.2)	Securities (note 22)	Other assets (Note 29)	Off-balance sheet liabilities (note 32)	Total
Balance as at January 1 , 2020	218,959	12,785,847	602	2,683,327	210,395	15,899,130
New impairment allowance	20,286	4,586,187	7,866	268,343	250,361	5,133,043
Decrease in impairment allowance	(20,495)	(3,463,894)	(4,255)	(143,154)	(211,244)	(3,843,042)
Foreign exchange differences	(18,968)	(24,955)	-	(1,545)	(4)	(45,473)
Permanent write-offs	-	(1,880,928)	-	(6,812)	-	(1,887,740)
Reclassification of sectoral structure	(195,504)	195,504	-	-	-	-
Other changes	13	(9,544)	-	121,736	-	112,205
Balance as of December 31, 2020	4,291	12,188,217	4,213	2,921,895	249,508	15,368,123

In 2020, the Group made an increase in the net expense of impairment and provisioning in the total amount of RSD 1,290,001 thousand.

Of the other changes in the accounts of impairment allowance and provisions, the amount of RSD 1,887,740 thousand refers to the permanent write off made by the Parent bank in 2020 with the transfer to off-balance sheet, based on the Decision made by the National Bank of Serbia regarding accounting for write-offs assets.

14. NET GAINS / (LOSSES) FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

In thousands of RSD

	Year ended December, 31 2020	2019
Gain / (loss) on the derecognition of financial instruments that are valued at amortised cost	-	(579,933)
Total	-	(579,933)

In 2020, the Group did not record any effects under this position in the profit and loss statement.

The loss realized in 2019 relates entirely to the net effects of the implementation of the Law of conversion of mortgage loans indexed in Swiss francs in April 2019, by which banks were obliged to recognize the expense of conversion and the impairment of the outstanding debt in the income statement of the current period.

According to the Law, the amount obtained by the conversion of outstanding debt from Swiss francs to debt indexed to EUR using a conversion exchange rate for all clients that signed a contract with the Parent Bank, is impaired by 38% where 23% of that impairment is borne by the Parent Bank’s income statement of the current period, and for the 15% of impairment there is a formed claim from The Republic of Serbia. The negative net effect shown in the income statement of the Parent Bank is related to the recalculation of 23% impairment of net receivables on the basis of derecognition of loans in Swiss francs.

The new, decresed amount of loan receivables in EUR, with the new repayment plans, are recorded by the Parent bank under the position Loans and receivables due from customers.

15. OTHER OPERATING INCOME

	In thousands of RSD For the year ended December 31 2020	2019
Other income from operations	214,999	152,535
Income from dividends and equity participations	12,098	14,011
Total	227,097	166,546

Within other income from operations of RSD 214,999 thousand, the most significant amounts relate to: income from rental of real estate, including received advances for lease in the amount of RSD 142,553 thousand, reimbursement of court costs and utilities in the amount of RSD 50,799 thousand and revenues from the charged expenses of official mobile phones under the authorization of employees in the amount of RSD 3,259 thousand and the use of official vehicles for private purposes in the amount of RSD 13,713 thousand.

During 2020, the Parent bank received dividends on the basis of shares and stocks intended for trading in the amount of RSD 12,098 thousand (2019: RSD 14,011 thousand) and form part of the position of other income, dividends from the participation in the ownership of VISA Inc. in the amount of RSD 7,019 thousand, Dunav Osiguranje ADO in the amount of RSD 3,077 thousand and MasterCard in the amount of RSD 2,002 thousand.

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

The costs of salaries, wages and other personal expenses consist of:

	In thousands of RSD Year ended December 31 2020	2019
Net salaries	3,034,771	2,923,235
Net benefits	482,174	538,362
Payroll taxes	430,752	429,226
Payroll contributions	1,008,491	997,564
Considerations paid to seasonal and temporary staff	1,454	4,774
Provisions for retirement benefits – net (Note 32)	104,231	33,570
Other personal expenses	1,429,917	611,211
Total	6,491,790	5,537,942

In 2020, majority of other personal expenses relates to annual benefits to employees.

17. DEPRECIATION COSTS

	In thousands of RSD Year ended December 31, 2020	2019
Depreciation cost - intangible assets (Note 25.2)	257,950	234,678
Depreciation cost - property and equipment (Note 26.2)	399,427	424,061
Depreciation cost - investment property (Note 27.1)	50,902	50,871
Depreciation cost - leasing assets (Note 26.2)	466,309	483,870
Total	1,174,588	1,193,480

18. OTHER INCOME

	In thousands of RSD Year ended December 31, 2020	2019
Income from reversal of unused provisions for litigations and other liabilities (Note 32)	790,393	513,269
Gains from sale of equipment / real estate	2,159	148
Income from decerase liabilities	3,733	9,582
Surpluses	308	-
Other income	125,009	287,908
	921,602	810,907

Within the position of other income of the Parent bank in 2020, the most significant items are income:

- Based on court disputes adjudicated in favour of the Bank or disputes in termination until the end of the previously connected procedure in the amount of RSD 775,329 thousand,
- Based on the decrease in liabilities in the amount of RSD 2,874 thousand,
- Based on interest from previous years – private individuals in the amount of RSD 1,710 thousand and from entrepreneurs in the amount of RSD 219 thousand,
- Based on interest from previous years – corporate clients in the amount of RSD 48,545 thousand.

19. OTHER EXPENSES

Other expenses relate to:

	In thousands of RSD	
	Year ended December 31,	
	2020	2019
Cost of materials	346,506	336,527
Cost of production services	1,399,802	1,520,502
Non – material costs (without taxes and contributions)	2,670,668	2,895,635
Tax expenses	184,251	188,168
Contribution expenses	732,828	749,554
Other operating cost	18,507	25,805
Other expenses	408,279	436,028
Losses from sale of fixed assets and intangible assets	-	709
Expenditure and writte -off losses of fixed assets and intangible assets	705	6,693
Losses arising as a result of changes in value in investment properties and assets held for sale	10,293	82,372
Provisions for litigations and other liabilities (note 33)	1,012,762	1,255,895
Total	6,784,601	7,497,888

a) Other expenses

Within the position of other expenses of the Parent bank in the amount of RSD 403,006 thousand among others were recorded expenses based on paid invoices to the insurance company for the life insurance policies of clients, in the amount of RSD 233,515 thousand, and whose payment has been done by the Parent bank. These policies are used as a collateral for approved loans to individuals. Also, in this position, expenses by policy for users of sets of current accounts and travel insurance of international payment cards in the amount of RSD 15,227 thousand are shown in this position.

b) Expenses arising from provisions for litigation

Expenses arising from provisions for litigation in the Parent Bank in the total amount of RSD 1,007,519 thousand (Note 33) refer to increase of expenses for 12,745 new case during 2020 and net increase in provisions for active cases from previous years.

20. PROFIT TAX – current and deferred taxes

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

Tax rates for 2020 are:

Serbia	15%
Montenegro	9%
Bosnia and Herzegovina	10%

The Group's profit tax components as of December 31 are as follows:

	In thousands of RSD	
	Year ended December 31	
	2020	2019
Current Profit tax	(7,309)	(14,088)
Gains from deferred taxes	122,101	1,488,290
Losses on deferred taxes	(1,391,735)	(800,665)
Total	(1,276,943)	673,537

Given the impossibility of tax consolidation, tax components are separately disclosed as follows:

20.1. The Parent bank

20.1.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD	
	Year ended December 31	
	2020	2019
Gains from deferred taxes	120,049	1,482,667
Losses on deferred taxes	(1,384,134)	(795,593)
Total	(1,264,085)	687,074

During 2020, the Bank paid in advance income tax, considering that during the calculation of income tax for 2019. stated the taxable profit of RSD 132,828 thousand and in the tax return stated the monthly amount of the advance payment for 2020 in the amount of RSD 1,112 thousand. Receivables for overpaid income tax as at 31 December 2020 in the amount of RSD 12,237 thousand are stated in the position of current tax assets. Having in mind that the Bank has no obligation to pay taxes for 2020, it will not request a refund of the funds in question, but will use them as an overpayment for the following years or will use them to cover other tax liabilities.

20. PROFIT TAX (continued)

20.1. The Parent bank (continued)

20.1.2. The adjustment of the effective tax rate is shown in the following table:

In thousands of RSD

	2020	2020	2019	2019
Profit / Loss for the year before taxes		4,192,846		8,268,685
Tax calculated using the local Profit tax rate	15%	628,927	15%	1,240,303
Expenses not recognized for tax purposes	3.64%	152,443	2.61%	216,264
Tax effects of the net capital profit / losses	-0.01%	(384)	-0.01%	(386)
Tax effects on income reconciliation	-2.77%	(116,098)	-0.91%	(75,645)
Tax effects by IFRS 9	-0.83%	(34,851)	-0.42%	(34,851)
Tax credit received and used in the current year	-1.14%	(47,600)	-9.02%	(746,013)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-13.89%	(582,437)	-6.77%	(599,672)
Deffered tax effect adjustments	30.15%	1,264,085	-8.31%	(687,074)
Tax effects stated within the income statement		(1,264,085)		687,074

20.1.3. Deferred tax liabilities at December 31 are shown as follows:

In thousands of RSD

	Year ended December 31, 2020	2019
Balance at 1 January	1,074,197	840,967
Creation and elimination of temporary differences	(1,221,597)	233,230
Balance at December 31	(147,400)	1,074,197

20. PROFIT TAX (continued)

20.1. The Parent Bank (continued)

20.1.4. Deferred tax assets and liabilities

20.1.4.1 Deferred tax assets and liabilities relate to:

In thousands of RSD

	2020			2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purpose	36,037	-	36,037	39,299	-	39,299
Tax losses carried forward	-	-	-	1,259,350	-	1,259,350
Effects of increase in deferred tax liabilities for securities available for sale and equity investments	1,779	(968,884)	(967,105)	570	(1,008,254)	(1,007,684)
Long-term provisions for retirement benefits	58,265		58,265	53,838	-	53,838
Impairment of assets	342,947		342,947	324,857	-	324,847
Employee benefits under Article 9 paragraph 2. CIT Law calculated but not paid in accounting period	762		762	1,213	-	1,213
Calculated but not paid public liabilities	112		112	163	-	163
First application of IFRS 9	69,702		69,702	104,552	-	104,552
Tax loan based on loan conversion in CHF	76,119		76,119	76,119	-	76,119
Provisions for litigation	256,095		256,095	242,231	-	242,231
Actuarial gains on provisions for severance payments		(20,334)	(20,334)	-	(19,741)	(19,741)
	841,818	(989,218)	(147,400)	2,102,192	(1,027,995)	1,074,197

Tax losses carried forward that are not recorded in the books of the Bank and on basis of which deferred tax assets were not formed, but can be used to cover taxes on profits in the coming periods amount to RSD 8,685,280 thousand which relate to a part of the tax loss realized in 2016. The tax credit expires at the end of 2021.

Deferred tax assets were not formed for tax credits on the basis of fixed asset investments in the amount of RSD 11,766 thousand which can be used by the end of 2023, while tax credit for intercompany dividends of RSD 13,154 thousand is entirely utilized in 2019.

20. PROFIT TAX (continued)

20.1. The Parent Bank (continued)

20.1.4. Deferred tax assets and liabilities (continued)

20.1.4.2 Overview of tax credits on which no deferred tax assets are formed:

In thousands of RSD

Type of tax credit	Year	Amount as at 31.12.2020	Amount as at 31.12.2019	Expiration date of use
	2014			2019
	2015			2020
Transferred tax losses	2016	8,685,280	595,917	2021
Total tax losses		8,685,280	595,917	
Impact of tax credit on future Profit tax(15%)		1,302,792	89,388	2019 -2021
Tax credit on the basis of investment in fixed assets	2013	11,766	12,508	2023
Total tax credit for future Profit tax liabilities		1,314,558	101,896	2019

In addition to the deferred tax asset reversal on transferred tax loss based on taxable profit coverage for 2020 in the amount of RSD 47,600 thousand, additional cancellation of the remaining amount of deferred tax assets on transferred tax loss in the amount of RSD 1,213,404 thousand was performed, based on levels profit planning for 2021 (in which the right to use transferred tax losses expires). As stated as at 31 December 2020, the amount of the tax credit for which no deferred funds have been formed is higher than on December 31, 2019.

20.1.4.3. Movements under temporary differences in 2020 and 2019 are presented as follows:

In thousands of RSD

2020	As at January 1,	Through P&L	Through OCI	As at December 31,
Property, plant and equipment	39,299	(5,764)	2,502	36,037
Tax losses carried forward	1,259,350	(1,259,350)	-	-
Securities	(1,007,684)	-	40,579	(967,105)
Long term provisions for employee benefits	53,838	4,427	-	58,265
Actuarial gains	(19,741)	-	(593)	(20,334)
Impairment of assets	324,857	18,090	-	342,947
Employee benefits under Ar.9, paragraph 2, CIT	1,213	(451)	-	762
Accrued and unpaid public duties	163	(51)	-	112
Tax credit based on first implementation of IFRS 9	104,552	(34,850)	-	69,702
Tax credit based on conversion of CHF loans	76,119	-	-	76,119
Provisions for legal disputes	242,231	13,864	-	256,095
Total	1,074,197	(1,264,085)	42,488	(147,400)

20. PROFIT TAX (continued)

20.1. The Parent bank (continued)

20.1.4. Deferred tax assets and liabilities (continued)

20.1.4.3. Movements under temporary differences in 2020 and 2019 are presented as follows:

In thousands of RSD

2019	As at January 1,	Through income statement	Through other results	As at December 31,
Property, plant and equipment	69,359	(16,707)	(13,353)	39,299
Transferred tax losses	878,000	381,350	-	1,259,350
Securities	(565,302)	-	(442,382)	(1,007,684)
Long-term provisions for employee benefits	49,098	4,740	-	53,838
Acturial gains	(21,632)	-	1,891	(19,741)
Impairment of assets	295,225	29,632	-	324,857
Employee benefits under Article 9 paragraph 2 CIT Law	1,183	30	-	1,213
Calculuted but not paid public liabilities	13	150	-	163
First-time adoption IFRS 9	-	104,552	-	104,552
Tax credit on the basis loan conversions to CHF	-	76,119		76,119
Provisions for litigation	135,023	107,208	-	242,231
Total	840,967	687,074	(453,844)	1,074,197

20.1.5. Tax effects related to the Other comprehensive income

In thousands of RSD

	2020			2019		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair value adjustments of equity investments and securities (increase on debt and equity securities)	(262,464)	39,369	(223,095)	2,920,446	(438,067)	2,482,379
Net decrease due to actuarial losses	3,954	(593)	3,361	(12,609)	1,891	(10,718)
Valuation of property	7,894	2,502	10,396	111,214	(13,353)	97,861
Decrease due to fair value adjustments of equity investments and securities	(8,064)	1,210	(6,854)	28,767	(4,315)	24,452
Total	(258,680)	42,488	(216,192)	3,047,818	(453,844)	2,593,974

20. PROFIT TAX (continued)

20.2. Komercijalna banka ad, Podgorica

20.2.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD Year ended December 31, 2020	2019
Tax expense of the period	(502)	(1,949)
Gains from deferred taxes	1,626	3,565
Deferred Profit tax expense	(7,440)	(4,305)
Total	(6,316)	(2,689)

20.2.2. The adjustment of the effective tax rate is shown in the following table:

	2020	2020	2019	2019
Profit / (Loss) before tax		56,128		121,323
Tax calculated at the local rate of 9%	9.00%	5,936	9.00%	10,919
Taxable income - related parties and capital gains	-0.89%	(502)	-1.61%	(1,949)
Tax deductible expenses	5.56%	3,120	0.99%	1,199
Tax credits - received and used in the current year	-15.24%	(8,554)	-8.38%	(10,169)
Effective Profit tax	0.89%	502	1.61%	1,949
Correction of tax effects on the basis of tax deduction	10.36%	5,814	0.61%	740
Tax effects of items reported in the income statement		(6,316)		(2,689)

When displaying an effective interest rate of Komercijalna banka ad Podgorica, starting point is adjusted result which includes adjustments to IFRS requirements.

20.3. Komercijalna banka ad, Banja Luka

20.3.1. The components of the corporate Profit tax as at December 31 are as follows:

	In thousands of RSD Year ended December 31, 2020	2019
Tax expense of the period	(6,806)	(12,137)
Gains / (losses) from deferred taxes	(161)	(766)
Total	(6,967)	(12,903)

20. PROFIT TAX (continued)

20.3. Komercijalna banka ad, Banja Luka (continued)

20.3.2. The adjustment of the effective tax rate is shown in the following table:

In thousands of RSD

	2020	2020	2019	2019
Profit / (Loss) before tax		47,889		152,290
Tax calculated at the local rate of 10%	10.00%	8,707	10.00%	15,229
Tax deductible expenses	20.09%	9,619	3.81%	5,801
Revenues freed from tax	-23.05%	(11,519)	-5.84%	(8,893)
Effective Profit tax	14.21%	6,806	7.97%	12,137
Correction of tax effects on the basis of tax deduction	0.34%	161	0.50%	766
Tax effects of items reported in the income statement		(6,967)		(12,903)

When displaying an effective interest rate, it comes from the derivative result of the dependent member of KB Banja Luka, which includes adjustments to IFRS requirements.

20.3.3. Deferred tax liabilities at December 31 are shown as follows:

In thousands of RSD

	Year ended December 31, 2020	2019
Balance at 1 January	21,404	4,836
Creation and elimination of temporary differences	(562)	16,568
Balance at 31 December	20,842	21,404

20.4. KomBank INVEST ad Beograd UCITS Fund Management Company

20.4.1. The components of the corporate Profit tax as at December 31 are as follows:

In thousands of RSD

	Year ended December 31, 2020	2019
Tax expense of the period	(1)	(2)
Gains from deferred taxes	426	2,058
	425	2,056

20. PROFIT TAX (continued)

20.4. KomBank INVEST ad Beograd UCITS Fund Management Company (continued)

20.4.2. The adjustment of the effective tax rate is shown in the following table:

	In thousands of RSD Year ended December 31, 2020	2019
Profit before tax	681	2,887
Profit tax at the statutory tax rate of 15%	102	433
The tax effects of net capital gains	1	2
Tax effects of differences of depreciation for tax purposes and accounting depreciation	29	36
Correction of tax effects (effect of used and new)	(132)	(471)
Other	1	2
Tax effects of items reported in the income statement	(1)	(2)
Effective tax rate	0.15%	0.07%

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK

Cash and balances with the central bank include:

	In thousands of RSD December 31, 2020	December 31, 2019
In RSD		
Cash on hand	4,572,746	4,339,383
Giro account	24,851,040	23,873,701
Deposited surplus of liquid assets	7,500,000	-
Other RSD cash funds	99	99
	36,923,885	28,213,183
In foreign currencies		
Casn on hand	11,300,634	10,118,526
Foreign currency obligatory reserves	36,879,516	37,256,392
Other cash funds	1,788,035	1,066,301
	49,968,185	48,441,219
Total	86,892,070	76,654,402
Adjustment to cash for the purpose of preparing cash flow statement		
Foreign currency accounts held with foreign banks (note 23.1)	11,542,557	5,121,610
Foreign currency obligatory reserves	(36,879,515)	(37,256,392)
Deposited surplus of liquid assets	(7,500,000)	-
	(32,836,958)	(32,134,782)
Cash and cash equivalents reported in statement of cash flows	54,055,112	44,519,620

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

The Group in the Cash Flow Statement records cash on giro accounts with the central bank, cash on accounts with foreign banks, funds in the account of the Central Securities Depository and cash in the cash register.

The Parent bank

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

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0.0% to 5.00%, depending on the maturity of liabilities and their source, while the calculated RSD obligatory reserve makes the sum: calculated obligatory reserves in RSD, 38.00% of the RSD countervalue of the calculated obligatory reserve in EUR on deposits up to 730 days, and 30.00% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days.

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

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

Persuant to the Decision on Amendment of the Decision on Obligatory Reserve dated 11.12.2015 (Official Gazzete 102/2015), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

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

In accordance with Decision on Obligatory Reserves held with NBS, the Parent bank allocated a part of its foreign currency reserve to its gyro account. The Parent bank does not realize interest on the obligatory reserve in the currency of the foreign country.

Other foreign currency cash in the amount of RSD 1,304,141 thousand (2019: RSD 1,463 thousand) relate to an accruals account at the Central Registry of securities for security trading.

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

Komercijalna banka ad Podgorica

The mandatory reserve of the Bank as of December 31, 2020 represents the minimum amount of deposited deposits in accordance with the regulations of the Central Bank of Montenegro, to which the "Decision on Required Reserves of Banks with the Central Bank of Montenegro" ("Official Gazette of Montenegro" No. 73 / 15, 78/15 and 3/16). In accordance with the above, the Bank calculates the required reserve on demand deposits and time deposits.

Deposit accounts with depository institutions in Montenegro refer to the obligatory reserve, which is allocated at the rate of 5.5% on the part of the base that consists of demand deposits and deposits with maturity up to one year, ie up to 365 days, and 4.5% per share of the base deposits are contracted with maturity over one year, or over 365 days. Deposits with a maturity of over one year that have a clause on the possibility of the disposal of these deposits within less than 365 days shall be applied at a rate of 5.5%.

The amount up to 50% is included in available-for-sale assets as an amount that is allowed to dispose of in order to maintain the daily liquidity of the Bank.

The Bank may allocate up to 25% of the required reserve in the form of government bonds issued by Montenegro.

At 50% of the allocated funds, the Central Bank pays the Bank a monthly fee of 1% per annum.

The Bank did not use the reserve requirement funds during 2020.

Komercijalna banka ad Banja Luka

Cash and cash equivalents include deposited surpluses of liquid assets with the Central Bank of Bosnia and Herzegovina in accordance with the regulations of the Central Bank of Bosnia and Herzegovina.

The obligatory reserve with the Central Bank of Bosnia and Herzegovina represents the minimum reserve of funds in domestic currency calculated in accordance with the Decision on Required Reserves with the Central Bank of Bosnia and Herzegovina.

From July 1, 2016, the Central Bank of Bosnia and Herzegovina calculates remuneration to banks in the following manner:

a) on the amount of the required remuneration means - does not charge compensation,
b) for the amount of funds above the required reserve - charges shall be calculated at a rate equal to the rate applied by the European Central Bank to Deposit Facility Rate - (Official Gazette of the Republic of Srpska 28/19 from April 4, 2019.

If during the maintenance period there is a change in the value of the Deposit Facility Rate, the rate applicable on the first day of the maintenance period during which the Change Deposit Facility Rate.

22. SECURITIES

22.1. Securities comprise:

In thousands of RSD

	December 31, 2020	December 31, 2019.
Securities measured at fair value through income statement (in RSD)	5,535,104	5,538,859
Securities measured at fair value through income statement (in foreign currency)	2,925,568	4,898,625
Total I	8,460,672	10,437,484
Securities measured at fair value through other comprehensive income (in RSD)	82,062,022	59,825,920
Securities measured at fair value through other comprehensive income (in foreign currency)	67,074,175	74,216,629
Total	149,136,197	134,042,549
Impairment allowance	(453)	(602)
Total II	149,135,744	134,041,947
Securities measured at amortized value -corporate bonds (in RSD)	846,000	-
Impairment allowance	(3,760)	-
Total II	842,240	-
Total I+II+III	158,438,656	144,479,431

22.2. The structure of securities measured at fair value through income statement is shown in the following table:

In thousands of RSD

	December 31, 2020	December 31, 2019
Bonds of the Republic of Serbia (in RSD)	4,873,616	4,877,762
Investment units of OIF monetary fund (in foreign currency)	5,021	4,832
Investment units of OIF monetary fund (in RSD)	656,467	656,265
Bonds of the Republic of Serbia (in foreign currency)	2,925,568	4,898,625
Total	8,460,672	10,437,484

Investment units as at December 31, 2020 in the amount of RSD 661,488 RSD comprise investment units Kombank Monetary fund Beograd and OIF in foreign currency fund.

22. SECURITIES (continued)

22.3 The structure of securities measured at fair value through other comprehensive income statement is shown in the following table:

	In thousands of RSD December 31, 2020	December 31, 2019
In RSD		
Bonds of the Republic of Serbia	80,958,748	59,651,702
Treasury bills	997,064	-
Municipality bonds (city of Sabac and municipality of Stara Pazova)	106,210	174,218
Total in RSD	82,062,022	59,825,920
In foreign currency		
Bonds of the Republic of Serbia	59,359,112	66,374,668
Bonds of foreign banks (Raiffeisen Bank International)	1,739,077	1,799,460
Bonds of the Republic of Srpska	4,710,381	3,927,741
Bonds of Montenegro	1,265,605	2,114,760
Total in foreign currencies	67,074,175	74,216,629
Total	149,136,197	134,042,549

Changes in the impairment allowance are as shown:

Impairment allowance of securities measured at fair value through other comprehensive income

	In thousands of RSD 2020	2019
Individual impairment allowance		
Balance at January 1	602	1,594
Increase (note 13)	4,106	74
Effects of the changes in exchange rates (Note 13)	-	(7)
Relased during the year (note 13)	(4,255)	(1,059)
Total individual impairment allowance	453	602

Impairment of securities measured at amortized cost

	In thousands of RSD 2020	2019
Individual impairment allowance		
Balance as at January 1	-	-
Increase (note 13)	3,760	
Total individual impairment allowance	3,760	-
Total individual impairment allowance	4,213	602

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

23.1 Placements to banks include

In thousands of RSD

	December 31, 2020	December 31, 2019
RSD loans and receivables		
Per repo transactions	-	12,000,000
Loans for working capital	1,500	-
Overnight loans	-	200,000
Other receivables	4,085	3,148
Placed deposits	16,379	16,390
Prepayments	970	6,805
Accruals	(2)	-
Impairment allowance	(12)	(273)
	22,920	12,226,070
FX loans and receivables		
Per repo transaction	1,165,461	2,103,540
Foreign currency accounts held with foreign banks (Note 21)	11,542,558	5,121,610
Overnight loans	1,175,802	2,161,743
Other loans and receivables due from foreign banks	1,623,954	1,610,855
Foreign currency deposits placed with other banks	2,384,126	2,938,545
Prepayments	456	1,285
Other receivables	4,505	5,962
Secured foreign currency warranties	949,980	1,039,080
Impairment	(4,279)	(218,686)
	18,842,563	14,763,934
Total	18,865,483	26,990,004

As at December 31, 2020, the Bank did not have securities acquired in reverse repo transactions with the National Bank of Serbia. During the year, placements to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days with the annual interest rate of 0.2% to 1.01%.

Short-term time loans and deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 0.2 % to 1.08% per annum.

Short term time deposits at banks in foreign currency are deposited for a period not exceeding one year, with interest rates ranging from 0.03% to 0.75% per annum for the EUR, from 0.05% to 1.6% for USD, from 0.01% to 0.72% for GBP, from 0.01% to 1.68% for CAD, 0.03% to 0.65% for AUD, and from 1.25% to 1.25% for other foreign currencies.

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

Long-term time deposits with banks in foreign currency are deposited at an annual interest rate of 0.25%.
Interest rates on placements of short-term loans in foreign currency ranged from 2,55% to 4.70% while interest rates on planned long-term loans in foreign currency ranged from 2.80% to 6.10%.

Interest rates on placements of long-term loans to foreign subsidiaries ranged from 1.947% to 2.492%, which represents 6M EURIBOR plus a fixed part of 2.47% and 2.65%, while interest rates of revolving loans to foreign subsidiaries ranged from 1.8% to 2.414% (which represents 1M EURIBOR plus fixed part of 2.35% and 2.86%).

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

23.2 Changes in the impairment allowance account by placements to banks are presented in the following table:

In thousands of RSD

	December 31, 2020	December 31, 2019
Impairment allowance		
Balance at January 1	218,959	227,871
Impairment allowance in the current year		
Increase (note 13)	20,286	44,177
Reclassification-transfer on clients	(195,504)	-
Exchange rate effects (note 13)	(18,968)	3,098
Realese during the year (note 13)	(20,495)	(56,187)
Other	13	-
Balance as at December 31	4,291	218,959

24. LOANS AND RECEIVABLES DUE FROM CLIENTS

24.1 Loans and receivables from clients:

In thousands of RSD

	2020			2019		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers						
Transaction account overdrafts	451,368	(24,688)	426,680	671,894	(13,667)	658,227
Working capital loans	48,631,549	(4,565,701)	44,065,848	46,327,391	(4,025,568)	42,301,823
Investment loans	50,046,260	(1,070,067)	48,976,193	48,283,698	(1,235,565)	47,048,133
Loans for payments of imported goods and services	2,928,241	(30,092)	2,898,149	2,062,163	(19,802)	2,042,361
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	306,114	(278,343)	27,771	362,298	(328,945)	33,353
Other loans and receivables	29,773,968	(4,997,468)	24,776,500	32,744,977	(5,894,917)	26,850,060
Prepayments	510,391	(29,200)	481,191	105,712	(1,363)	104,349
Accruals	(234,863)	-	(234,863)	(206,131)	-	(206,131)
	132,413,028	(10,995,559)	121,417,469	130,352,002	(11,519,827)	118,832,175
Retail customers						
Transaction account overdrafts	2,769,970	(177,168)	2,592,802	3,252,612	(179,356)	3,073,256
Housing loans	52,482,981	(457,098)	52,025,883	47,152,120	(579,714)	46,572,406
Cash loans	40,383,218	(444,331)	39,938,887	37,847,753	(419,526)	37,428,227
Consumer loans	285,881	(2,450)	283,431	251,088	(1,566)	249,522
Other loans and receivables	2,283,950	(94,481)	2,189,469	2,435,172	(82,269)	2,352,903
Prepayments	1,489,439	(17,130)	1,472,309	281,616	(3,589)	278,027
Accruals	(486,623)	-	(486,623)	(552,358)	-	(552,358)
	99,208,816	(1,192,658)	98,016,158	90,668,003	(1,266,020)	89,401,983
Balance as of December 31	231,621,844	(12,188,217)	219,433,627	221,020,005	(12,785,847)	208,234,158

24. LOANS AND RECEIVABLES FROM CLIENTS (continued)

24.2 Movements on the account of impairment allowance of Loans and receivables from clients are presented in the table below:

In thousands of RSD

	2020	2019
Individual impairment allowance		
Balance as at January 1,	11,401,092	13,176,237
Increase (note 13)	867,900	2,397,295
Reclassified from group to individual impairment allowance	493,899	(838,782)
Reclassified from Bank's impairment	195,504	-
Exchange rate effects (note 13)	(1,302)	(14,138)
Realese during the year (note 13)	(1,033,753)	(2,261,854)
Decrease Imapirment allowance-conversion CHF-EUR in accordance with the instructions of NBS	-	(165,317)
Writte-off	(1,143,788)	(960,161)
Conversion CHF-EUR	-	(816)
Other (note 13)	(31,455)	68,628
Total individual impairment allowance	10,748,097	11,401,092
Group impairment allowance		
Balance as at January 1st 2020.	1,384,755	1,733,806
Increase (note 13)	3,718,287	3,476,504
Reclassified from group to individual impairment allowance	(493,899)	838,782
Exchange rate effects (note 13)	(23,653)	(12,569)
Realese during the year (note 13)	(2,430,141)	(4,316,897)
Decrease Imapirment allowance-conversion CHF-EUR in accordance with the instructions of NBS	-	(113,250)
Writte-off	(737,140)	(334,830)
Conversion CHF-EUR	-	(917)
Other (note 13)	21,911	114,126
Total group impairment allowance	1,440,120	1,384,755
Balance as at December 31,	12,188,217	12,785,847

25. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Loans and receivables due from retail customers

During 2020, short-term and long-term loans to retails in RSD were approved for a period of 30 days to 120 months with nominal interest rates ranging from 2.0%to 13.95% per annum.

Short-term loans to retails in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.47% to 13.0% annually.

Long-term loans to retails in foreign currency are approved for a term of thirteen to three hundred and sixty-five months with nominal interest rates ranging from 1.5% to 12.95% annually.

Loans and receivables due from corporate client

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.90% to 6.95% annually.
In foreign currency, short-term loans were approved for a period up to twelve months with an interest rate of 1.20% to 5.95% for EUR per annum whereas for other currencies from 1.50% to 11.99% per annum.

Long-term loans in RSD were approved for a period from thirteen months to 120 months with an interest rate from 1.48% to 5.95% on an annual basis (with individual deviations for five loan parties approved outside the specified range).

Long-term loans in foreign currency are approved for a period of up to one hundred forty-four months with an interest rate of EUR from 1.11% to 5.95% annually and for other foreign currencies with an nominal interest rate ranging 1.95% to 11.40% per annum, that is from 3.19% plus six months Euribor to 11.40% plus six months Euribor.

Risks and uncertainties

The management of the Group members made a provision for potential loan losses using the concept of expected credit loss. Losses due to impairment of assets measured at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of future estimated cash flows discounted using the initial effective interest rate of the asset. Losses are recognized in the income statement and are stated at the expense position and the impairment of financial assets under Loans and receivables from clients. When events after the balance sheet date affect the impairment loss, such a decrease is recognized as an impairment loss through the income statement.

Loans and other receivables are presented in the amount reduced for group and individual impairment allowance. Individual and group provisions are deducted from the carrying amount of loans that are identified as impaired in order to reduce their value to their recoverable amount. In order to protect against the risk of non-performance of obligations in dealing with clients, the Group takes the following measures for regulating receivables: extension of the maturity date, restructuring, settlement, takeover of collateral for the collection of receivables, conclusion of a contract with the interested third party, initiation of court proceedings and other measures. If the measures taken to regulate the placements, ie the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the receivables in full, the proposal for permanent write-off of the remaining receivables of the Group, or transfer from the balance sheet to the off-balance sheet is initiated.

25. INTANGIBLE ASSETS

25.1 Intangible assets consist of:

In thousands of RSD

	December 31, 2020	December 31, 2019
Intangible assets	561,339	718,936
Intangible assets in progress	17,074	35,564
Total	578,413	754,500

25.2 Changes in intangible assets during 2020. and 2019. are shown in the following table

In thousands of RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as at January 1, 2019	2,599,817	190,049	2,789,866
Additions	15,106	351,623	366.729
Transfers	506,020	(506,020)	-
Disposals	(17,829)	-	(17,829)
Exchange rate	(1,661)	(88)	(1,749)
Balance as at December 31, 2019	3,101,453	35,564	3,137,017
Balance as at January 1, 2020	3,101,453	35,564	3,137,017
Additions	8,755	73,119	81,874
Transfers	91,608	(91,608)	-
Disposals	(4,739)	-	(4,739)
Exchange rate	(40)	(1)	(41)
Balance as at December 31, 2020	3,197,037	17,074	3,214,111
Accumulated depreciation			
Balance as at January 1, 2019	2,162,398	-	2,162,398
Depreciation (note 17)	234,678	-	234,678
Disposals	(13,101)	-	(13,101)
Exchange rate	(1,458)	-	(1,458)
Balance as at December 31, 2019	2,382,517	-	2,382,517
Balance as at January 1, 2020	2,382,517	-	2,382,517
Depreciation (note 17)	257,950	-	257,950
Disposals	(4,739)	-	(4,739)
Exchange rate	(30)	-	(30)
Balance as at December 31, 2020	2,635,698	-	2,635,698
Net book value			
Balance as at December 31, 2019	718,936	35,564	754,500
Balance as at December 31, 2020	561,339	17,074	578,413

26. PROPERTY, PLANT AND EQUIPMENT

26.1 Property, plant and equipment consist of:

In thousands of RSD

	December 31, 2020	December 31, 2019
Property	5,080,081	5,158,235
Equipment	506,621	681,661
Investments in progress	34,586	49,281
Right of use assets	1,121,911	1,365,214
Total	6,743,199	7,254,391

26. PROPERTY, PLANT AND EQUIPMENT (continued)

26.2 Movements on property, plant and equipment during 2019 and 2020 were as follows:

In thousands of RSD

Cost	Property	Plant	Investment in progress	Business premises taken into leasing	Other assets taken into leasing	Total
Balance as at January 1, 2019	7,381,787	4,043,846	222,403	-	-	11,648,036
Correction of the opening balance - First application IFRS 16	-	-	-	1,788,885	60,114	1,848,999
Adjusted balance on January 1, 2020	7,381,787	4,043,846	222,403	1,788,885	60,114	13,497,035
Additions during the year and new leasing contracts	-	13,356	163,516	63,187	6,010	246,069
Transfers from investment in progress	77,108	259,414	(336,522)	-	-	-
Transfers from assets acquired through collection of receivables	14,418	-	-	-	-	14,418
Disposals and retirements	(15,116)	(154,163)	-	(2,254)	-	(171,533)
Sales	-	(5,655)	-	-	-	(5,655)
Increase based on estimates	244,948	-	-	-	-	244,948
Decrease based on estimates	(142,218)	-	-	-	-	(142,218)
Shortages as per year count	-	(541)	-	-	-	(541)
Adjustments on the basis of the annex of the lease contract	-	-	-	(29,891)	-	(29,891)
Leasing other				(49,121)	-	(49,121)
FX Exchange rate differences	(2,195)	(2,787)	(116)	(2,333)	(211)	(7,642)
Balance as at December 31, 2019	7,558,732	4,153,470	49,281	1,768,473	65,913	13,595,869
Balance as at January 1, 2020	7,558,732	4,153,470	49,281	1,768,473	65,913	13,595,869
Additions during the year and new leasing contracts	-	7,727	124,777	235,801	1,186	369,491
Transfers from investment in progress	77,666	61,805	(139,471)	-	-	-
Disposals and retirements	(21,042)	(228.779)	-	(201)	-	(250,022)
Shortages as per year count	-	(1,116)	-		-	(1,116)
Leasing other	-	(6)	-	(40.094)	(1,359)	(41.459)
FX Exchange differences	(47)	(59)	(1)	(48)	(4)	(159)
Balance as at December 31, 2020	7,615,309	3,993,042	34,586	1,963,931	65,736	13,672,604
Impairment						
Balance as at January 1, 2019	2,234,807	3,365,845	-	-	-	5,600,652
Depreciation (note 17)	157,133	266,928	-	464,399	19,471	907,931
Disposals and retirements	(13,207)	(153,101)	-	-	-	(166,308)
Sales	-	(5,253)	-	-	-	(5,253)
Increase based on estimates	57,793	-	-	-	-	57,793
Decrease based on estimates	(35,069)	-	-	-	-	(35,069)
Shortages as per year count	-	(528)	-	-	-	(528)
Adjustments for the basis of the annex of the lease contract	-	-	-	(2,893)	-	(2,893)
Leasing – other	-	-	-	(11,600)	-	(11,600)
FX exchange differences	(960)	(2,082)	-	(182)	(23)	(3,247)
Balance as at December 31, 2019	2,400,497	3,471,809	-	449,724	19,448	6,341,478
Balance as at January 1, 2020	2,400,497	3,471,809	-	449,724	19,448	6,341,478
Depreciation (note 17)	155,793	243,634	-	448,.406	17.903	865,736
Disposals and retirements	(21,042)	(227,950)	-	-	-	(248,992)
Shortages as per year count		(1,026)				(1,026)
Leasing other	-	(6)	-	(26,358)	(1,359)	(27,723)
FX Exchange differences	(20)	(40)	-	(7)	(1)	(68)
Balance as at December 31, 2020	2,535,228	3,486,421	-	871,765	35,991	6,929,405
Net carrying amount						
Balance as at December 31, 2019	5,158,235	681,661	49,281	1,318,749	46,465	7,254,391
Balance as at December 31, 2020	5,080,081	506,621	34,586	1,092,166	29,745	6,743,199

26. PROPERTY, PLANT AND EQUIPMENT (continued)

Members of the Group do not have mortgaged buildings to secure repayment of the loan.

Due to incomplete cadastral books, as of December 31, 2020 the Parent bank does not have evidence of ownership for 13 properties with the net book value of RSD 131,694 thousand (the number of facilities includes assets acquired through collection of receivables). The Parent bank's management takes all the necessary measures to obtain ownership papers. The conclusion of this process depends on the treatment of the competent authority.

In 2020, the total write off of fixed assets at the present value of RSD 357 thousand was made during the year. Based on the Annual list of the Group members, the loss of RSD 341 thousand and shortages in the amout of RSD 146 thousand were recorded. Based on the Annual list, the surplus in the amount of RSD 322 thousand was recorded.

Based on the performed Annual Count in Komercijalna banka AD Banja Luka, it was disposed and deregistered from the records of permanently unusable fixed assets of the current value in the amount of RSD 40 thousand.

Based on the performed Annual Count in Komercijalna banka AD Podgorica, it was disposed and deregistered from the records of permanently unusable fixed assets of current value in the amount of RSD 470 thousand.

27. INVESTMENT PROPERTY

27.1 Movements on the account of investment property in 2020 and 2019 are presented below:

	In thousands of RSD Total
Cost	
Balance as at January 1, 2019	2,849,962
Transfer from assets held for sale and correction	(5,371)
Exchange rate	(3,334)
Balance as at December 31, 2019	2,841,257
Balance as at January 1, 2020	2,841,257
Transfer from assets held for sale	(6,784)
Exchange rate	(69)
Balance as at December 31, 2020	2,834,404
Accumulated depreciation	
Balance as at January 1, 2019	590,147
Depreciation (note 17)	50,871
Transfer from assets held for sale	(867)
Exchange rate	(1,510)
Balance as at December 31, 2019	638,641
Balance as at January 1, 2020	638,641
Depreciation (note 17)	50,902
Sales	(113)
Exchange rate	(33)
Balance as at December 31, 2020	689,397
Net book value	
Balance as at December 31, 2019	2,202,616
Balance as at December 31, 2020	2,145,007

27. INVESTMENT PROPERTY (continued)

Information on investment property per members of the Group is presented below:

27.2.1 The Parent bank

As at December 31, 2020, the net result on the basis of lased investment properties is positive and amounts to RSD 47,548 thousand.

In thousands of RSD

Property	Area in m^2	Total cost	Income from rent	Net result
Beograd, Trg Republike 1	3,354	(28,211)	57,640	29,429
Nis, Vrtiste new D – building	1,816	(4,681)	-	(4,681)
Nis, TPC Kalca	85	(828)	3,049	2,221
Beograd, Omladinskih brigade 19	15,218	(22,636)	9,118	(13,518)
Sabac, Majur, Obilazni put bb	1,263	(1,779)	-	(1,779)
Lovcenac, Marsala Tita bb	46,971	(2,984)	7,055	4,071
Negotin, Save Dragovica 20-22	658	(1,121)	-	(1,121)
Nis, Bulevar 12. February bb	816	(645)	6,913	6,268
Beograd, Radnicka 22	7,190	(18,535)	37,678	19,143
Novi Sad, Vardarska 1/B	291	(1,590)	-	(1,590)
Novi Sad, Bulevar Oslobodjenja 88	44	(132)	3,397	3,265
Kotor, Old Town, Palata beskuca, business area, number 1	207	(888)	6,534	5,646
Beograd, Luke Vojvodica 77a	80	(658)	852	194
Total		(84,688)	132,236	47,548

27.2.2 Komercijalna banka ad, Banja Luka

As at 31 December 2020, the Bank has classified investment properties in the amount of RSD 248,134 thousand, which make the buildings lease.

As at December 31, 2020 the net result of investment property is RSD 2,488 thousand::

In thousands of RSD

Property	Area in m^2	Total cost	Realized rental income	Net result
Brcko, Bescarinska zona bb	1,259	(875)	852	(23)
Actros motel-pizzeria Nova Topola	5,437	(2,361)	4,008	1,647
Banja Luka, family business building, office building and workshops	6,814	(441)	721	280
Sarajevo, Aurum arena	402	(264)	487	223
Brcko, Bescarinska zona bb – IMPRO	949	(577)	938	361
Total		(4,518)	7,006	2,488

27. INVESTMENT PROPERTY (continued)

27.2.3 Komercijalna banka ad, Podgorica

As at December 31, 2020 the Bank has listed investment property in the amount of RSD 77,366 thousand, which are available for lease.

As at December 31, 2020 the net result of investment property is RSD 3,620 thousand:

In thousands of RSD

Object name	Area in m²	Total cost	Realized rental income	Net result
Land and distribution center in Budva	7,114	-	1,411	1,411
Three business premisses	118	-	506	506
Business premise in Herceg Novi	52.48	(218)	1,921	1,703
		(218)	3,838	3,620

28. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In thousands of RSD

	December 31, 2020	December 31, 2019
Assets held for sale and discontinued operations	370,663	500,740
Total	370,663	500,740

a) Assets held for sale at the Parent bank:

Object name	Area in m^2	Book value in thousands of RSD
Jasika, office space	75.87	484
Pozarevac, Mose Pijade 2, offfice space	826.82	25,070
Pozarevac, Mose Pijade 2, office space	880.86	20,744
Vrabac, M. Tita 49, office space	145.56	1,910
Kotor, bussines premises 1 and 2	690.00	82,218
Total		130,426

During 2020, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 7,591 thousand.

In the first quarter of 2020, based on the decision of the Bank's Management, reclassified one investment property from the position of assets intended for sale to fixed assets for business activities, book value in the amount of RSD 58,283 thousand.

The Bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

28. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

b) Assets held for sale at Komercijalna banka ad, Banja Luka

Object name	Area in m^2	Book value in thousands of RSD
Business space Posusje	1,289.00	19,171
Commercial building and land, Kocicevo, Gradiska	961.00	4,687
Production complex – farm in Brezovom polju, Brcko	66,649.00	47,733
Land in Kostajnici	31,052.00	1,142
Land in Nova Topola	6,514.00	10,820
Business space – Brcko District	29.00	1,577
Business space – Banja Luka	71.00	8,169
Apartment in Tuzla	65.00	4,064
Equipment – machines		2,133
Land in Bijeljina (ploughland, forest, field)	16,050.00	-
House and business space in Gradiska	459	2.562
		102,058

During 2020, one business space were sold and on that basis, fixed assets intended for sale decreased by RSD 3,494 thousand (58,125.35 KM). The total sale price of these facilities amounts to RSD 3,727 thousand (62,000 KM).

During 2020, on the basis of the assessment of an authorized external assessor, there has been a reduction of non-currentassets held for sale in the amount of RSD 2,702 thousand.

The management of the Bank continues to pursue the sale procedure for all assets that have not been sold in the past year.

c) Assets held for sale at Komercijalna banka ad, Podgorica:

Object Name	Area in m^2	Booking value in thousands of RSD
Land in Kotor	3,362.00	5,329
Land and fish factory (buildings) in Rijeka Crnojevica (Cetinje)	50,455.00	66,579
Urbanized plot in Herceg Novi Apartment in Niksic	65.00	2,267
Urbanized plot in Risan	425.00	3,845
Forest, fields and pastures in Bar	12,501.00	9,817
2 Business premises in Petrovac	173.00	23,569
Business premise in Podgorica – Old Airport	433.00	26,773
Total		138,179

28. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

During the year 2020. there were sales of four properties held for sale. The Bank sold the property of the debtor Timo INVEST d.o.o Podgorica, an urbanized plot (300 m2) in Herceg Novi, 447 KO Radovanići PJ Herceg Novi, with a net book value of RSD 1,362 thousand (11,585.16 EUR). Also, the Bank sold property in Podgorica, pasture (375 m2), net book value of RSD 1,154 thousand (EUR 9,815.38).

In 2020, based on the assessment of an authorized external assessor, a decrease in the value of fixed assets intended for sale amounted to RSD 23,793 thousand.

The Bank's management continues to pursue the sale procedure for all assets that have not been sold in the past year.

29. OTHER ASSETS

Other assets consist of:

	In thousands of RSD	
	December 31, 2020	December 31, 2019
In RSD		
Fee receivables per other assets	95,572	118,464
Inventories	119,667	134,820
Assets acquired in lieu of debt collection	3,409,219	3,170,410
Prepaid expenses	137,479	164,102
Equity investments	2,516,975	2,398,936
Other RSD receivables	2,248,805	3,783,861
	8,527,717	9,770,593
Impairment allowance of:		
Fee receivables per other assets	(81,165)	(78,391)
Assets acquired in lieu of debt collection	(1,722,325)	(1,474,657)
Equity investments	(446,661)	(446,661)
Other RSD receivables	(817,960)	(840,040)
	(3,068,111)	(2,839,749)
In foreign currencies		
Fee receivables per other assets	8	1,409
Other receivables from operations	634,856	438,612
Receivables in settlement	307,342	283,756
Other foreign currency receivables	783,457	328,719
	1,725,663	1,052,496
Impairment allowance of		
Other receivables from operations	(301,750)	(303,337)
Receivables in settlement	(77,519)	(77,392)
	(379,269)	(380,729)
Total	6,806,000	7,602,611

29. OTHER ASSETS (continued)

Changes in the allowance account for other assets and active time delimits during the year are shown in the following table:

Individual impairment allowance

	December 31, 2020	December 31, 2019
	In thousands of RSD	
Balance as at January 1,	769,998	926,787
Impairment in the current year:		
Increase (note 13)	52,264	17,580
Effects of change in exchange rate (note 13)	(53)	(3,124)
Realese during the year	(1,578)	(11,811)
Other	122,110	(159,434)
Total individual correction	942,741	769,998

Group impairment allowance

	December 31, 2020	December 31, 2019
	In thousands of RSD	
Balance as at January 1,	1,913,329	1,710,912
Impairment in the current year:		
Increase (note 13)	216,079	357,157
Effects of change in exchange rate (note 13)	(1,492)	(779)
Realese during the year	(141,576)	(105,353)
Perment write-off	(6,812)	(11,234)
Other	(374)	(37,374)
Total group impairment allowance	1,979,154	1,913,329
Balance as at December 31 (without small inventory)	2,921,895	2,683,327
Impairment allowance on inventory (not subject to credit risk)	78,824	90,491
Balance as at December 31 (with small inventory)	3,000,719	2,773,818
Impairment allowance in equity participation	446,661	446,661
Balance as at December 31	3,447,380	3,220,479

29. OTHER ASSETS (continued)

a) Equity participation

Within the position of other assets, equity participation of legal entities is recognized according to the table:

In thousands of RSD

	December 31, 2020	December 31, 2019
Participation in the capital of banks and financial organizations	80,270	80,270
Participation in the capital of enterprises and other legal entities	458,725	465,249
Participation in the capital of foreign persons abroad	1,977,980	1,853,417
Total	2,516,975	2,398,936
impairment allowance based on:		
Participation in the capital of banks and financial organizations	(80,270)	(80,270)
Equity participation of enterprises and other legal entities	(366,391)	(366,391)
Total	(446,661)	(446,661)

Participation in the capital of banks and financial organizations relates to: Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, Union Bank a.d. in the amount of RSD 1,874 thousand and Univerzal banka a.d. Belgrade (in bankruptcy) in the amount of RSD 9 thousand.

Equity participations mostly relate to: 14. Oktobar Krusevac in the amount of RSD 324,874 thousand, Dunav osiguranje a.d.o. Belgrade in the amount of RSD 81,242 thousand, RTV Politika d.o.o. Belgrade in the amount of RSD 37,634 thousand, Belgrade Stock Exchange a.d. in the amount of RSD 2,246 thousand and Politika a.d. Belgrade of RSD 1,381 thousand.

Equity participations of foreign legal entities relate to the company VISA INC in the amount of RSD 1,565,824 thousand, MASTER Card International in the amount of RSD 411,803 thousand and Montenegro berza AD Podgovrica in the amount of RSD 353 thousand.

The impairment of the equity participation in the amount of RSD 446,661 thousand relates to the impairment of the purchase value for those shares that do not have market value, the largest amount of which is related to: October 14, Krusevac in the amount of RSD 324,874 thousand, Euroaxis Bank Moscow in the amount of RSD 78,387 thousand, RTV Politika doo, Belgrade in the amount of RSD 37,633 thousands and PPD Dobricevo Cuprija in the amount of RSD 2,563 thousand.

b) Other receivables and receivables from operations

Other receivables in RSD mostly relate to receivables arising from the purchase of foreign currency on the foreign exchange market in the amount of 352,770 thousand (impairment allowance in the amount of RSD 762 thousand), operating receivables in the amount of RSD 203,153 thousand (impairment allowance in the amount of RSD 79,462 thusand), receivables based on material values received by collection of receivables in the amount of RSD 2,295,185 thousand (Impairment allowance in the amount of RSD 1,064,325 thousand), receivables arising from advances granted for working capital in the amount of RSD 51,956 thousand (impairment allowance in the amount of RSD 6,557 thousand), receivables on lease RSD 377,166 thousand (impairment allowance in the amount of RSD 285,873 thousand), receivables for default interest on the basis of stocks assets in the amount of RSD 201,971 thousand, (impairment allowance in the amount of RSD 154,057 thousand) receivables in the calculation according to the court judgment in the amount of RSD 209,085 thousand (allowance for the full amount of 100%).

29. OTHER ASSETS (continued)

v) Foreclosed assets

Foreclosed assets amount to RSD 3,409,219 thousand, less recorded impairment allowance of RSD 1,722,325 thousand, with the net carrying value of RSD 1,686,894 thousand relate to members of the Group:

Parent bank

I Foreclosed properties classified in accordance with the classification decision that applied before December 30, 2013

In thousands of RSD

Description	Area in m^2	Value	Date of acquisition
Novi Pazar, Kej skopskih zrtava 33, local	82.95	1,910	27.09.2006.
Gnjilica, field VII class	2,638	53	15.04.2008.
Cacak, hotel „President", Bulevar oslobodjenja bb	2,278.92	68,748	21.01.2009.
Budva, Montenegro, forest, IV class	8,292	82	12.10.2010.
Buce, forest, IV class	974	3,612	27.05.2011.
Prijevor, forest IV class	1,995	4,179	27.05.2011.
Beograd, Mihaijla Avramovica 14a, building	925.35	147,436	21.11.2011.
Krusevac, Kosevi, production and office building I.C.P.	12,836	40,194	08.06.2012.
Mladenovac, Sopot-Nemenikuce, filed III class	16,633	240	25.06.2012.
Obrenovac, Mislodjin, field III class	10,017	947	11.07.2012.
Novi Pazar, Ejupa Kurtagica 13, house	139.90	3,184	24.07.2012.
Majur, Tabanovacka, field	14,452	1,468	10.08.2012.
Mali Pozarevac, Veliko Polje, field III and IV class	21,915	288	27.09.2012.
Cuprija, Alekse Santica 2/24, aparment	72.40	728	15.01.2013.
Nis, Ivana Milutinovica 30, business office	438.39	4,420	23.04.2013.
Nis, Triglavska 3/1 aparment	79.80	2,842	04.06.2013.
Mladenovac, field-lug III class	1,142	377	18.07.2013.
Nis, Bulevar 12. Februar, outhouse-storage	2,062	35,113	30.07.2013.
Kula, Zeleznicka bb, business office, land	7,959	19,741	01.10.2013.
Prijepolje, Karosevina, sawmill	450	753	08.11.2013.
Total I		336,315	

29. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent bank (contuned)

II Foreclosed properties classified in accordance with the classification decision that is applied after December 30, 2013

In thousands of RSD

Description	Area in m2	Value	Date of acquisition
Vukovac,, Milatovac, agricultural land	132,450	458	16.05.2014.
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	40,165	08.05.2014.
Subotica, Magnetic fields, 17, production hall and warehouse	2,492	40,051	18.07.2014.
Mokra Gora, land, forests, fields, houses	58,400	3,288	31.01.2014.
Kopaonik, House with land	337	3,533	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 6/3	29	2,666	31.01.2014.
Novi Sad, Bulevar oslobođenja 30 and commercial property 7/3	44	4,045	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 8/3	35	3,218	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 9/3	34	3,126	31.01.2014.
Novi Sad, Bulevar oslobođenja and 30th, commercial property 10/3	39	3,585	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, commercial/23	253	17,473	31.01.2014.
Novi Sad, Tihomira Ostojića 4, office space 7	134	4,964	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 8	81	4,281	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 9	79	4,175	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 10	408	22,177	31.01.2014.
Zrenjanin, Novosadski put 4, building, pump and land	9,144	30,165	14.08.2014.
Budva, Reževici, Montenegro, rocks, forest	1,363.20	18,149	22.07.2014.
Budva, Reževici, Montenegro, forest V class	5,638.54	74,111	22.07.2014.
NIS, Ivana Gorana Kovacica 31, residential building	434.58	3,914	17.04.2013.
Mladenovac, Americ, field IV class	7,768	228	03.10.2014.
Valjevo, Rađevo selo, warehouse	394	380	11.06.2014.
Bela Crkva, Kajtasovo, forest	4,187	64	03.10.2014.
Mladenovac, fields, orchards	25,136	484	03.10.2014.
Valjevo, Vojvode Misica 17, family building	106	1,483	25.09.2014.
NIS, Čajnička bb, residential buildings with additional building	825.74	9,309	14.03.2013.
NIS, Sjenička 1, commercial buildings, warehouses, workshops	1,452.73	11,461	14.03.2013.
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	87,043	16.06.2014.
NIS, Sumadijska 1, Office space	504.60	1,567	04.12.2014.
Valjevo, Worker 6, place	69	2,410	28.05.2014.
Prokuplje, field III class	12,347	509	28.08.2015.
Mionica, Prote Zarko Tomovica bb, House	107	1,506	10.09.2015.
Prokuplje, Maloplanska 7, building with land	490	243	11.06.2012.
Sokobanja, agricultural land, Orchard, field IV class	417,908	4,932	31.07.2012.
Sokobanja, production hall with land	5,042	20,491	31.07.2012.
Sokobanja, space with land	2,005	589	31.07.2012.
Sokobanja, House with land	4,194	3,185	31.07.2012.
Belgrade, Pivljanina 83, residential buildings	278.52	52,587	23.08.2012.
Divčibare, meadows V class	8,012	3,835	02.12.2015.
Lebane, Branka Radičevica 17, residential and commercial building	768.42	4,945	27.08.2015.
Sid, Jamene, field, krcevinai cerje IV and V class	29,515	1,200	11.03.2016.
Loznica, Lipnica, Karađorđeva, residential and commercial building with land	146	1,793	15.10.2015.
Vrhpolje, lodging hospitality	1,334	2,049	16.05.2013.
Krusevac, century village, a concrete base with land	100,560	117,752	11.03.2016.
Zrenjanin, Bagljas, pasture II class	230	44	22.12.2015.
Svilajnac, Kodublje, Office building, halls and land	10,462	26,633	26.02.2016.
Aleksandrovo, Merosina, building with land	8,527	12,690	23.12.2015.
Cacak, Suvo polje, buildings 1 and 2 with land	1,225	10,382	05.05.2016.
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	209	31.03.2016.
Valjevo, Bobove, field VI and VII class	20,599	278	19.05.2016.
Kotor, Montenegro, Office space, building No. 1	106	18,514	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	60,135	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	53,481	22.12.2016.
Nis, Trg Ucitelja Tase br. 10/1, office space	79.40	5,489	13.03.2019.
Curug, Nikole Pasica bb, silosi sa pomocnim objektima	910	55,280	07.10.2019.
Zabari, fileds III class	12,732	294	08.03.2017.
Kula, Zeleznicka bb, field I class	177	17	10.02.2020.
Novi Sad, Petra Drapsiina 29, apartment	154	13,447	14.10.2020.
Total II		870,482	

29. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent bank (continued)

III Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification on balance and off-balance sheet items

In thousands of RSD

Description	Value	Date of acquisition
Krusevac, moveable assets (\machinery, furniture, equipment)	5,544	08.06.2012.
Nis i Soko Banja Moveable assets (lines for processing coffee, transport devices and devices for maintaining hygiene)	4,975	31.07.2012.
Paracin, lines for production for coffee	2,048	31.12.2012.
Vranic, lines for production	3,452	09.07.2013.
Total III	16,019	

IV Equipment acquired in periods after December 30, 2013 – which do not classify as balances and off-balances items in accordance with the relevant NBS decision

In thousands of RSD

Description	Value	Date of acquisition
Moveable property, agricultural equipment and tools	48	03.06.2015.
Equipment supplies raw materials	1,242	18.07.2014.
Movables, installation material	487	13.05.2014.
Other	6,267	07.10.2019.
Total IV	8,044	

V Securities acquired trough collection of receivables

In thousands of RSD

Description	Value	Acquisition Date
Securities acquired trough collection of receivables	1,940	12.09.2020
Impairment allowance of securities	(1,940)	
Total V	-	
Total (Present value) I + II+ III+ IV+V	1,230,860	

29. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Parent bank (continued)

The effect of the impairment of assets acquired through collecting receivables in 2020 is shown in the table:

In thousands of RSD

Effects of property impairment	74,724
Effects of equipment impairment	2,712
Total impairment of real estate and equipment	77,436

Total negative effect amounted to RSD 77,436 thousand and it was recognized as expense of a period as follows (note 13):

- Impairment of real estate in the amount of RSD 60,538 thousand based on the estimated lower market value of real estate and land, as well as impairment calculated in accordance with the internal act due to the inability to sell for a period longer than twelve months in the amount of RSD 14,186 thousand for real estate whose fair value is higher than net book value
- for equipment in the amount of RSD 2,712 thousand based on the estimate of the lower market value and in accordance with the Bank's internal act

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

29. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.1 Appraisal value of foreclosed properties

In thousands of RSD

Property	Area in m²	Book value before the appraisal	Appraisal value In EUR	Appraisal value Net current value in RSD	Difference in value
Belgrade, Mihaila Avramovica 14**a**,building	925.35	156,017	1327	147,436	(8,581)
Krusevac, St. selo, a concrete base with land	100,560	124,605	1060	117,752	(6,853)
Cacak, Hotel "Prezident", Bulevar oslobodjenja BB	2,278.92	82,315	700	68,748	(13,567)
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	92,109	783	87,043	(5,066)
Budva, Reževici, Montenegro, forest V class	5,638.54	76,958	655	74,111	(2,847)
Curug, Nikole Pasica bb, silos with auxiliary facilities	910	58,498	498	55,280	(3,218)
Kotor, Montenegro, Office space, building No. 1 PD 4	345	60,714	516	60,135	(579)
Kotor, Montenegro, Office space, building No. 1 PD6	345	56,594	481	53,481	(3113)
Belgrade, Pivljanina 83, Office building	278.52	55,648	473	52,587	(3,061)
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	42,503	361	40,165	(2,338)
Subotica,Magnetna polja 17, production hall and warehouse	2,492	42,382	360	40,051	(2,331)
Krusevac, Kosevi bb, production and office building I.C.P.	12,836	42,533	362	40,194	(2,339)
NIS, Bulevar 12. Februara bb, extra building-warehouse	2,062	37,157	316	35,113	(2,044)
Sokobanja, link, port, with land, Orchard, House, field IV kl.	429,149	30,819	262	29,197	(1,622)
Zerenjanin,Bagljas,Novosadski put 4,building,pump,land, pasture	9,374	31,968	272	30,209	(1,759)
Svilajnac, Kodublje, partner, buildings, halls and land	10,462	28,183	240	26,633	(1,550)
Novi Sad, Polgar Andrasa 40/a, pressing business. Space 10	408	23,468	200	22,177	(1,291)
Kula, Zeleznicka bb, commercial property, land	7,959	20,890	178	19,741	(1,149)
Kotor, Montenegro, Office space, building No. 1 PD2	106	19,591	167	18,514	(1,077)
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	18,490	157	17,473	(1,017)
Budva,Rezevici, Montenegro,forest	1,363.20	18,846	160	18,149	(697)
Novi Sad, Petra Drapsina 29, apartment	154	14,230	121	13,447	(783)
Aleksandrovo, Merosina, administration building with land	8,527	13,428	114	12,690	(738)
Nis, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	12,128	103	11,461	(667)
Cacak, Suvo polje,building 1 **и** 2 with land	1,225	10,986	93	10,382	(604)
Nis, Cajnicka BB, building	825.74	9,851	84	9,309	(542)
Nis, Trg Ucitelja Tase br. 10/1, local	79.40	5,808	49	5,489	(319)
Novi Sad, Tihomira Ostojica 4, business office 7	134	5,253	45	4,964	(289)
Lebane, Branka Radi**č**evica 17, residential and commercial building	768.42	5,233	45	4,945	(288)
NIS, Ivana Milutinovica 30, business space	438.39	4,677	40	4,420	(257)
Novi Sad, Polgar Andrasa 40/a, , business space 8	81	4,530	39	4,281	(249)
Novi Sad, Polgar Andrasa 40/a, , business space 9	79	4,418	38	4,175	(243)
Novi Sad, Bulevar Oslobodjenja 30**a**, business space (5 local)	181	17,608	150	16,640	(968)
Prijevor, forest 4 class	1,995	4,339	37	4,179	(160)
NIS, Ivana Gorana Kovacica 31, residential area	434.58	4,142	35	3,914	(228)
Divcibare, meadows V class	8,012	3,982	34	3,835	(147)
Mokra Gora, houses and meadows	58,400	3,479	30	3,288	(191)
Kopaonik, House with land	337	3,739	32	3,533	(206)
Budva, forest IV class	974	3,751	32	3,612	(139)
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,369	29	3,184	(185)
Nis, Triglavska 3/1, apartment	79.8	3,007	26	2,842	(165)
Valjevo, Radnicka 6, apartment	69	2,550	22	2,410	(140)
Other (31 property)	-	20,725	176	19,608	(1,117)
TOTAL		1,281,521		1,206,797	(74,724)

29. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.2 Appraisal value of foreclosed equipment

In thousands of RSD

Description	Book value before the appraisal	Net current value in RSD	Difference in value
Movable assets	12,296	11,005	(1,291)
Equipment, supplies, secundary raw material	8,636	7,558	(1,078)
Other	6,189	5,846	(343)
Total	27,121	24,409	(2,712)

For three movables object worth in total RSD 96 thousand, the Bank does not have ownership documents (objects recorded on off-balance). The Bank's management is taking all necessary measures in order to sell the acquired assets.

Komercijalna banka ad, Podgorica

Tangible assets acquired through collection of receivables in previous period:

Description	Area in m^2	Value in 000 RSD	Acquisition Date
Sutomore – hotel and land	1,590	87,917	31.01.2009.
Budva – pasture and 3 family building	1,105	15,087	17.12.2009.
Podgorica – factory and land	8,214	35,617	28.12.2009.
Podgorica – business premises and land	5,209	36.791	28.12.2009.
Cetinje – garage and land	439	1.399	25.05.2010.
Podgorica– house and yard	883	20.041	31.07.2010.
Podgorica – hotel	551	31.007	31.12.2011.
Podgorica – land and hppuse	484	2.320	31.12.2011.
Bar – land, house and two ancillary buildings	1,507	3,582	28.02.2013.
Niksic – meadow and unclassified roads	977	976	28.02.2013.
Budva – Perezica Do – land, business premises,three garages, four apartments	5,315	76,622	25.01.2014.
Kotor – land, two family residential buildings and ancillary buildings	396	1,009	05.09.2014.
Podgorica land and building under construction	412	4,453	28.12.2009.
Bar – forest	3,569	52,794	29.12.2014.
Bar – business premises	385	20,549	24.03.2015.
Budva – Perezica Do – Apartment and garage	61	7,693	01.09.2009.
Budva – Perezica Do – Apartment and garage	78	10,272	01.09.2009.
Budva – Rezevici - land	547	6,450	17.12.2009.
Andrijevica – Zabrdje – Wood factory and land	14,233	6,249	31.10.2009
Kotor – Pobrdje - land	31,543	18,661	01.09.2009.
Budva - land	709	13,880	01.09.2009.
Kotor – Vranovici - land	3,131	2,665	01.08.2010.
Total KB Podgorica (present value)		456,034	

For 16 facilities acquired through collection of receivables, the Bank has titles from land cadastres but has not entered into the property. The total net value of assets acquired through collection of receivables, for which the Bank has not entered into possession as at 31 December 2020, amount to RSD 302,299 thousand (EUR 2,571 thousand). The Bank's management is taking all necessary measures in order to sell the acquired assets.

29. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

Komercijalna banka ad, Podgorica (continued)

The Bank has hired an authorized external appraisers who conducted a reassessment of assets acquired through collection of receivables, before the twelve months period. Negative effect of the assessment is recognized as an expense in the period in the amount of RSD 24,716 thousand.

Estimated value of property acquired through collection of receivables:

Property	Area in m^2	Book value before revaluation in RSD thousand	Estimated value In thousand EUR	Estimated value In thousand RSD	Value difference in RSD thousand
Budva – Perezica Do – Apartment and garage	61	7,710	65	7,693	(65)
Budva – Perezica Do – Apartment and garage	78	10,290	87	10,272	(18)
Budva – Rezevici - land	547	6,467	55	6,450	(17)
Andrijevica – Zabrdje – Wood factory and land	14,233	7,235	53	6,249	(986)
Kotor – Pobrdje - land	31,543	29,548	159	18,661	(10,886)
Budva - land	709	13,898	118	13,880	(18)
Kotor – Vranovici - land	3,131	2,683	23	2,665	(18)
Land, business premises, 3 garage and 4 apartment	5,315	76,622	652	76,622	-
Yard and house in Podgorica	883	22,393	170	20,041	(2,352)
Land and hotel- Sutomor	1,590	87,917	748	87,917	-
Grassland and 3 family residential buildings – Budva	1,105	15,607	128	15,087	(520)
Land and factory – Podgorica	8,214	35,827	302	35,617	(210)
Land and 2 business premises – Podgorica	5,209	37,241	313	36,791	(450)
Land and garage – Cetinje	439	1,417	12	1,399	(18)
Hotel – Podgorica	551	33,367	264	31,007	(2,360)
Land and house – Podgorica	484	3,797	20	2,320	(1,477)
Grassland and uncategorized roads in Niksic	977	976	8	976	-
Land, house and 2 ancillary buildings – Bar	1,507	3,625	30	3,582	(43)
Land, 2 family residential buildings and ancillary buildings – Kotor	396	1,646	9	1,009	(637)
Land and building under construction – Podgorica	412	4,579	38	4,453	(126)
Forest – Bar	3,569	46,464	449	52,794	(3,670)
Business premises – Bar	385	21,442	175	20,549	(893)
TOTAL		480,751	3,878	456,034	(24,716)

30. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

Deposits and other liabilities due to banks and other financial institutions comprise:

In thousands of RSD

	December 31, 2020	December 31, 2019
Demand deposits	4,164,149	2,451,910
Term deposits	3,750,865	5,829,431
Overnight deposits	150,000	-
Other	31,176	37,265
Balance as at December 31	8,096,190	8,318,606

During 2020 deposits in RSD were placed at interest rate of 0.09% and deposits in foreign currency were placed by banks at interest rate from 1.2% to 1.5% for USD and 0.05% to 0.07% for EUR and for other foreign currencies 0.59% to 2.40%. Interest rates on deposits taken from subsidiary foreign banks ranged from 0.1 to 1.25% for USD deposits.

31. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS

Deposits and other financial liabilities to clients comprise:

In thousands of RSD

	December 31, 2020	December 31, 2019
Corporate customers and agro		
Demand deposits	86,846,426	78,301,854
Callable deposits	180,955	42,688
Overnight and other deposits	19,966,291	14,483,027
Borrowings	4,471,316	4,060,334
Special purpose deposits	2,478,918	2,054,530
Deposits for loans approved	682,563	547,737
Interest payable, accrued interest liabilities and other financial liabilities	715,894	541,742
Retail customers – private individuals		
Demand deposits	55,006,792	43,450,446
Callable deposits	37,855	72,964
Savings deposits	224,973,561	218,449,382
Special purpose deposits	6,750,908	5,138,469
Deposits for loans approved	2,573,827	2,419,206
Interest payable, accrued interest liabilities and other financial liabilities	1,095,054	1,003,142
Other deposits	411,707	422,189
Balance at December 31	406,192,067	370,987,710

31. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS (continued)

Corporate customer's deposit

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2020, these deposits are interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand. Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Banja Luka's interest rate ranges to 0.50% annually.Depending on the level of the average monthly balance on the transaction accounts of Komercijalna banka a.d. Podgorica's interest rate ranges from 0.00% to 0.01% annually. Non-resident deposits in foreign currency in Parent Bank are non-interest bearing deposits, except for specific business arrangements. Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Podgorica is non-exhaustive.Deposits with non-residents' foreign currency deposits at Komercijalna banka a.d. Banja Luka ranges from 0.0% to 0.50%.
During 2020, short-term deposits of enterprises in RSD were deposited at an interest rate ranging from: 0.25% on deposits from three to fourteen days to the reference interest rate annually minus 1.25 percentage points for a period of up to one year limit of minimum 300 thousand dinars. Short-term deposits of entrepreneurs were deposited at an interest rate ranging from 0.25% to 1.20% annually with a minimum of RSD 300 thousand. Short-term deposits of companies and entrepreneurs in foreign currency are deposited at an interest rate ranging from 0.05% to 1.50% annually for EUR or from 0.40% to 1.00% for USD, and for other currencies ranging from 0.0% to 0.55%. Long-term corporate deposits in RSD were deposited with an interest rate determined by the reference interest rate of the National Bank of Serbia annually reduced by 0.50 percentage points to 2.00 percentage points, and in foreign currency from 0.50% to 2.00% annually for EUR and from 1.30% up to 1.40% annually for USD, from 0.00% to 2.02% annually for other foreign currencies.

Retail Customer Deposits

A vista retail savings deposits in local and foreign currencies in the Parent Bank during 2020 were non-interest bearing.

Foreign a vista retail savings deposits in Komercijalna Banka a.d. Banja Luka during 2020 were non-interest bearing.

Foreign a vista retail savings deposits in Komercijalna Banka a.d. Podgorica during 2019 were interest bearing ranging from 0.00% to 0.01% annually.

Short-term retail deposits in RSD were deposited with interest rates ranging from 1.00% to 2.50% annually, and in foreign currency from 0.05% to 2.20% for EUR, and for other currencies ranging from 0.00% to 2.90% per annum.

Long-term retail deposits in RSD were deposited with interest rates ranging from 2.75% to 3.00% annually, and in foreign currency from 0.65% to 2.90% for EUR, and for other currencies ranging from 0.00% to 3.50% per annum.

During the year, the Parent bank had special interest rates on action savings, with limited expiration periods which are not subject to disclosure.

In the framework of loan commitments, total liabilities are recognized for foreign-credit lines to foreign legal entities that are defined as clients for the needs of the balance sheet.

31. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS (continued)

Breakdown of long-term and short-term borrowings of Parent bank included within the line item of liabilities due to customers is presented below:

In thousands of RSD

	December 31, 2020	December 31, 2019
Long-term loans		
Republic of Italy Government	5,487	36,139
European Investment Bank (EIB)	970,366	1,376,259
European Agency for Reconstruction (EAR)	1,372	14,463
Balance at December 31	977,225	1,426,861

The above presented borrowings mature in the period from 2021 to 2030.

According to credit lines (tripartite), the Parent bank has no contractual obligations with creditors related to financial indicators (monitoring / reporting).

Breakdown of long-term borrowings of Komercijalna banka a.d. Podgorica included within the line item of liabilities due to customers is presented below:

In thousands of RSD

	December 31, 2020	December 31, 2019
European Investment Bank (EIB)	50,392	100,794
Government of Montenegro - Project 1000+	39,334	42,914
Development Fund of Montenegro	507,385	623,829
Balance at December 31	597,111	767,537

The above presented borrowings mature in the period from 2021 to 2031.

Komercijalna Banka a.d. Podgorica is not obligated to meet any financial ratios due to abovementioned loans.

31. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CLIENTS (continued)

Breakdown of long-term borrowings of Komercijalna banka a.d. Banja Luka included within the line item of liabilities due to customers is presented below:

In thousands of RSD

	December 31, 2020	December 31, 2019
Investment-Development Bank	2,896,980	1,865,936
Balance at December 31	2,896,980	1,865,936

The above presented long-term and short-term borrowings mature in the period from 2021 to 2045.

Based on the contract concluded with the Republic of Srpska Investment Development Bank, Komercijalna banka A.D. Banja Luka has no obligation to comply with certain financial indicators.

31.1 The structure and movement of liabilities on the basis of deposits and other financial liabilities to banks, other financial organisations, central bank and clients is shown in the following

In thousands of RSD

	December 31, 2020	December 31, 2019
Balance as at January 1,		
Deposits and other financial liabilities to banks, other financial organisations and central bank (note 31)	8,318,606	8,228,284
Deposits and other financial liabilities to clients (note 32)	370,987,710	350,668,156
Total balance as at January 1,	379,306,316	358,896,440
Net inflows/outflows – deposits	33,844,825	21,209,646
Net inflows/outflows - loans	1,779,939	(709,085)
Net inflows/outflows – interest	(1,265,765)	(1,195,178)
Net inflows/outflows – fees	(4,165)	(6,615)
Exchange rate	(782,537)	(205,985)
Accrued interest and other non-cash transactions	1,409,644	1,317,093
Balance as at December 31,	414,288,257	379,306,316

In thousands RSD

	December 31, 2020	December 31, 2019
Deposits and other financial liabilities to banks, other financial organisations and central bank (note 31)	8,096,190	8,318,606
Deposits and other financial liabilities to clients (note 32)	406,192,067	370,987,710
Total banks and clients	414,288,257	379,306,316

32. PROVISIONS

Provisions relate to:

In thousands of RSD

	December 31, 2020	December 31, 2019
Provisions for off-balance sheet items (Note 13)	249,508	210,395
Provisions for litigations (Note 36.4)	1,797,624	1,715,964
Provisions for employee benefits in accordance with IAS 19	649,214	557,051
Balance at December 31	2,696,346	2,483,410

Movements on the accounts of provisions are provided below:

	2020				2019			
	Provisions for Off-Balance Sheet items (note 13)	Provisions for ligitations (Note 36.4)	Provisions for Employee Benefits(IAS 19)	Total	Provisions for Off-Balance Sheet items (note 13)	Provisions for ligitations (Note 36.4)	Provisions for Employee Benefits(IAS 19)	Total
Balance as at January 1,	210,395	1,715,964	557,051	2,483,410	309,211	988,557	511,085	1,808,853
Increase	250,361	1,012,762	104,241	1,367,364	282,248	1,255,895	34,056	1,572,199
Provisions against actuarial gains within equity	-	-	(4,338)	(4,338)	-	-	12,770	12,770
Utilization	-	(142,145)	(3,326)	(145,471)	-	(26,566)	(209)	(26,775)
Reversal provisions	(211,244)	(777,198)	(10)	(988,452)	(380,863)	(513,269)	(486)	(894,618)
Exchange rate	(4)	(9)	(4)	(17)	(201)	(431)	(165)	(797)
Other	-	(11,750)	(4,400)	(16,150)	-	11,778	-	11,778
Balance as at December 31,	249,508	1,797,624	649,214	2,696,346	210,395	1,715,964	557,051	2,483,410

a) Provisions for litigations of Parent bank

A provision was done on the basis of estimates of future outflows in the amount of damage receivables including interest and costs. Total amount of provisions for 15,558 disputes as at December 31, 2020 amount to RSD 1,707,301 thousand.

Compared to 31 December, 2019 there was a change in the total level of provisions in the net amount of RSD 92,427 thousand. Of this, the change related to the net provisioning provision for legal liabilities amounts to RSD 232,190 thousand recognized in the income statement position, while the decrease in the provision in the amount of RSD 139,763 thousand relates to the use of provisions for payments and cancellation under the adopted court judgments.

Majority of disputes mainly relate to loan approval fee, receivables for damages and labour disputes.

32. PROVISIONS (continued)

b) Provisions for employee benefits

Provisions for retirement benefits were formed on the basis of an independent actuary report at the balance sheet date, and they are stated in the present value of expected future payments. The main actuarial assumptions used in calculation of retirement benefits were as follows:

	December 31, 2020	December 31, 2019	
Parent bank			
Discount rate	4.00%	4.00%	
Salary growth rate within the Bank	3.00%	2.00%	
Salary growth rate at the national level	6.00%	-	6.00%
Employee turnover	5.00%	4.00%	

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate. One of the actuarial assumptions in the calculation of the necessary provisions for employee benefits in 2020 is the growth rate of salaries at the national level of 6%.

Komercijalna Banka a.d., Podgorica

	December 31, 2020	December 31, 2019
Discount rate	3.00%	3.00%
Salary growth rate within the Bank	-	3.00%
Salary growth rate at the national level	2.00%	-
Employee turnover	8.00%	9.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Montenegro was used to determine the discount rate.

Komercijalna Banka a.d., Banja Luka

	December 31, 2020	December 31, 2019
Discount rate	3.00%	3.00%
Salary growth rate within the Bank	-	2.00%
Salary growth rate at the national level	2.00%	-
Employee turnover	5.00%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on ten-year bonds issued by the Government of the Republic of Srpska was used to determine the discount rate.

KomBank INVEST a.d., Beograd

	December 31, 2020	December 31, 2019
Discount rate	4.00%	4.00%
Salary growth rate within the Bank	3.00%	6.00%
Salary growth rate at the national level	6.00%	-
Employee turnover	5.00%	5.00%

33. OTHER LIABILITIES

Other liabilities include: *In thousands of RSD*

	December 31, 2020	December 31, 2019
Accounts payable	166,554	264,882
Liabilities to emplyees (salaries, payroll taxes and contribution)	26,212	76,854
Adanced received	192,516	177,879
Liabilities based on leasing	1,151,562	1,371,502
Accurued interest, fees and commissions	333,215	160,992
Accurued liabilities and other accruals	1,340,697	637,699
Liabilities in calcution	1,866,692	2,316,607
Liabilities from profit	183,667	9,236,270
Taxes and contributions payble	10,882	19,343
Other liabilities	297,881	297,542
Balance as at December 31,	5,569,878	14,559,570

Liabilities in settlement totalling RSD 1,866,692 thousand mostly relate to the Parent bank's liabilities for sale and purchase of foreign currencies in the foreign exchange market in the amount of RSD 352,741 thousand, liabilities related to buying and selling foreign currencies in the amount of RSD 235,160 thousand, liabilities in settlement for liquidated foreign currency accounts of domestic legal entities in the amount of RSD 112,091 thousand, liabilities for unpaid dividends to legal entities in the amount of RSD 184,986 thousand, liabilities based on closed customer accounts in RSD in the amount of RSD 120,837 thousand and liabilities in settlement based on liquidated foreign currency accounts of foreign legal entities in the amount of RSD 57,145 thousand and liabilities in settlement on other bases in rsd in the amount of RSD 60,821 thousand.

a) Liabilities from Parent's bank profit in the amount of RSD 183,667 thousand consist of:

- liabilities for dividends on preferred shares in the amount of RSD 4,251 thousand,
- liabilities from profit to employees in the amount of RSD 179,417 thousand.

Based on the decisions of the Bank's Assembly and after fulfilling all the necessary conditions prescribed by the Banking Law, the Bank's Executive Board made decisions on the payment of dividends for the business years 2014, 2015, 2016, 2017, 2018 and 2019. Dividends were paid in cash on September 21, 2020 to the bank's shareholders - persons who were registered in the Central Registry, Depot and Clearing of Securities as legal holders of the bank's shares on the day of dividend. At the same time, payment was made to employees from the profit for the years 2014, 2017, 2018 and 2019, which reduced the obligation on this basis as well. The remaining amount of liabilities based on dividends in the amount of RSD 4,251 thousand refers to liabilities from the period before 2014 and liabilities to shareholders who did not submit instructions for the payment of dividends.

33. OTHER LIABILITIES (continued)

b) liabilities based on leasing

In thousands of RSD

	2020	2019
Balance as at January 1,	1,371,502	1,847,377
Interest expenses	27,024	33,509
Interest income- termination of contracts	(148)	(500)
Expenses from negative currency clause of the leasing contract	895	3,530
Income from positive currency clause of the leasing contract	(989)	(8,970)
Tax expenses for legal and private individual	74,250	71,417
Other net income based on leasing	(484)	(60)
Exchange rate differences	(45)	(2,340)
Lease payments	(533,731)	(567,015)
New contracts and amendment of existing (net increase)	194,354	-
Other	18,934	(5,446)
Balance as at December 31,	1,151,562	1,371,502

34. EQUITY

34.1 Equity is comprised of:

In thousands of RSD

	December 31, 2020	December 31, 2019
Share capital	17,191,526	17,191,526
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	25,432,818	21,849,598
Revaluation reserves	8,544,078	8,875,798
Retained earnings	4,812,004	9,981,902
Loss	(1,261,380)	(1,370,332)
Balance as at December 31	77,562,130	79,371,576

34. EQUITY

34.1 Equity is comprised of (continued):

Capital structure *In RSD '000*

	December 31, 2020			December 31, 2019		
	Majority shareholding	Non-controlling shares	Total	Majority shareholding	Non-controlling shares	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
Retained earnings	4,811,998	6	4,812,004	9,981,896	6	9,981,902
Loss	(1,261,380)	-	(1,261,380)	(1,370,332)	-	(1,370,332)
Reserves from profit and other reserves	25,432,814	4	25,432,818	21,849,594	4	21,849,598
Revaluation reserves (credit balance)	6,924,907	-	6,924,907	7,256,593	-	7,256,593
Revaluation reserves (debit balance)	-	-	-	(248)	-	(248)
Translational reserves (Note 35.3)	1,619,171	-	1,619,171	1,619,453	-	1,619,453
Reserves	33,976,892	4	33,976,896	30,725,392	4	30,725,396
Capital	77,562,060	70	77,562,130	79,371,506	70	79,371,576

The Parent bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Parent bank, as well as to participate in profit distribution. As of December 31, 2020 the Bank's share capital totalled RSD 17,191,466 thousand and comprised 17,191,466 shares with the nominal value of RSD 1 thousand per share.

Structure of the Parent Bank's shares is provided in the table below:

	Number of shares	
Share Type	December 31 2020	December 31 2019
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	17,191,466	17,191,466

34. EQUITY

34.1 Equity is comprised of (continued):

The structure of the Parent bank's shareholders with ordinary (common stock) shares at December 31, 2020 was as follows:

Name of the shareholder	No. of shares	% participation
NLB D.D. Slovenija	13,997,686	83.23
OTP BANKA SRBIJA (custodyaccount)	464,919	2.76
Jugobanka a.d., Beograd – in l bankruptcy	321,600	1.91
Dunav Osiguranje a.d. Beograd	290,214	1.73
BDD M&V INVESTMENTS AD BEOGRAD (cumulative рачун)	272,590	1.62
GLOBAL MACRO ABSOLUTE RETURN A	133,148	0.79
GLOBAL MACRO CAPITAL OPPORTUNITIES	131,568	0.78
Stancom co. d.o.o. Beograd	117,535	0.70
East capital (lux)-Balkan fund	116,756	0.69
GLOBAL MACRO PORTFOLIO	84,003	0.50
FRONT MARK OPPORTUN.MASTER	68,404	0.41
DEKA INZENJERING	65,580	0.39
I.N. DRENIK NONWOVENS TRADING	58,950	0.35
ALLIANCEBERNS.NEXT 50E.M.(M)F.	46,837	0.28
Other (1,084 shareholders)	648,166	3.86
Total	16,817,956	100.00

The structure of the Parent bank's shareholders with preferred shares at December 31, 2020 was as follows:

Shareholder	Number of shares	% share
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (624 shareholders)	270,280	72.37
	373,510	100.00

As of June 26, 2019, the Ministry of Finance of the Republic of Serbia performed redemption of ordinary shares owned by DEG-DEUTSHE INVESTITIONS and SWEDFUND INTERNATIONAL in total percentage of 6.90%, and as of November 26, 2019, performed redemption of ordinary shares of EBRD, in a percentage of 24.43% and IFC CAPITALIZATION FUND LP in a percentage of 10.15%, which increased the percentage of the participation of the Republic of Serbia to 83.23%.

As of February 26, 2020 the Ministry of Finance of the Recpublic of Serbia announced that representatives of Nova Ljubljanska Banka d.d. (NLB) and the Minister of Finance of the Republic of Serbia signed the Agreement on the purchase of 83.23% of ordinary shares of Komercijalna Banka AD Beograd.

By signing this contract, the Bank has a new strategic partner, which will take over the management of the Bank after the transaction is completed.

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

34. EQUITY (continued)

34.1 Equity is comprised of (continued):

Revaluation reserves totalling RSD 8,544,078 thousand (2019: RSD 8,875,798 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,088,022 thousand, revaluation reserve based on the valuation of debt securities in the amount of RSD 5,708,949 thousand and actuarial gains in the amount of RSD 127,936, and translational reserves in the amount of RSD 1,619,171 thousand. The stated values also include the tax effects of revaluation reserves.

34.2. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period:

	2020	2019
Profit minus preferred dividends (in RSD thousand)	2,916,958	8,942,686
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	173	532

The basic earnings per share for 2020 is RSD 173 or 17.34% at the nominal value of ordinary shares; for 2019, earnings per share amounted to RSD 532 or 53.17% at the nominal value ordinary shares.

34.3. Cumulative foreign exchange losses and gains on foreign transactions

In thousands of RSD

	Cumulative FX on the basis of shares in subsidiaries	Cumulative FX on the basis of intercompany transaction	Cumulative FX on income adjustments to the FX rate as at December 31	Total
Balance as at January 1, previous year	1,521,335	75,058	51,758	1,648,151
Increase	(34,940)	6,859	(617)	(28,698)
Balance as at December 31, previous year	1,486,395	81,917	51,141	1,619,453
Increase	(729)	445	2	(282)
Balance as at December 31, current year	1,485,666	82,362	51,143	1,619,171

35. MATURITY ANALYSIS OF ASSETS AND LIABILI

An analysis of assets and liabilities according to when they are expected to be due or settled is shown in the table below:

In thousands of RSD

December 31, 2020	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	86,892,070	-	86,892,070
Securities	20,819,030	137,619,626	158,438,656
Loans and receivables from banks and other financial organisations	15,991,777	2,873,706	18,865,483
Loans and receivables from clients	62,824,341	156,609,286	219,433,627
Intangible investments	-	578,413	578,413
Property, plant and equipment	-	6,743,199	6,743,199
Investment property	-	2,145,007	2,145,007
Current tax assets	19,661	-	19,661
Deferred tax assets	-	2,484	2,484
Non-current assets held for sale and discontinued operations	370,663	-	370,663
Other assets	4,723,511	2,082,489	6,806,000
TOTAL ASSETS	191,641,053	308,654,210	500,295,263
Deposits and other liabilities to banks, other financial organisations and central bank	7,245,858	850,332	8,096,190
Deposits and other financial liabilities to clients	374,147,298	32,044,769	406,192,067
Provisions	-	2,696,346	2,696,346
Current Tax Liabilities	2,079	-	2,079
Deffered Tax Liabilities	-	176,573	176,573
Other liabilities	4,803,434	766,444	5,569,878
TOTAL LIABILITIES	386,198,669	36,534,464	422,733,133
Net	(194,557,616)	272,119,746	77,562,130

35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

In thousands of RSD

December 31, 2019	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	76,654,402	-	76,654,402
Securities	22,972,599	121,506,832	144,479,431
Loans and receivables from banks and other financial organisations	25,925,757	1,064,247	26,990,004
Loans and receivables from clients	68,380,888	139,853,270	208,234,158
Intangible investments	-	754,500	754,500
Property, plant and equipment	-	7,254,391	7,254,391
Investment property	-	2,202,616	2,202,616
Current tax assets	6,786	-	6,786
Deferred tax assets	-	1,076,255	1,076,255
Non-current assets held for sale and discontinued operations	500,740	-	500,740
Other assets	5,648,856	1,953,755	7,602,611
TOTAL ASSETS	200,090,028	275,665,866	475,755,894
Deposits and other liabilities to banks, other financial organisations and central bank	6,326,829	1,991,777	8,318,606
Deposits and other financial liabilities to clients	326,625,861	44,361,849	370,987,710
Provisions	-	2,483,410	2,483,410
Current Tax Liabilities	2,673	-	2,673
Deffered Tax Liabilities	-	32,349	32,349
Other liabilities	13,605,014	954,556	14,559,570
TOTAL LIABILITIES	346,560,377	49,823,941	396,384,318
Net	(146,470,349)	225,841,925	79,371,576

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In thousands of RSD

	December 31, 2020	December 31, 2019
Operations on behalf and for the account of third parties	4,146,427	4,201,557
Taken-over future liabilities	44,263,544	56,406,073
Receivables under repurchase agreements	1,175,802	-
Other off-balance sheet items	484,744,960	443,227,208
Total	534,330,733	503,834,838

From the assumed future liabilities, the internal relationship with Komercijalna banka ad, Banja Luka, based on undisbursed loans in the amount of RSD 2,939,505 thousand (EUR 25 million), with Komercijalna banka a.d. Podgorica based on undisbursed loans in the amount of RSD 1,763,702 thousand (EUR 15 million) was eliminated as well as an unused part of the approved limit for KomBank INVEST cards amounting to RSD 200 thousand.

From other off-balance sheet positions, internal relations were eliminated by Komercijalna banka a.d. Banja Luka, Komercijalna banka a.d. Podgorica and KomBank INVEST have with Komercijalna banka a.d. Beograd.

36.1 Guarantees and letters of credit

Banks, members of the Group, issue guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

In thousands of RSD

	December 31, 2020	December 31, 2019
Payment guarantees	5,088,246	4,983,412
Performance guarantees	7,131,239	5,754,320
Letters of credit	169,229	281,963
Balance as at December 31,	12,388,714	11,019,695

The above listed amounts represent the maximum amount of loss that the Group would incur as at reporting date in the event that none of the Group's clients were able to settle their contractual obligations (Note 4).

36.2 Structure of commitments is provided below:

In thousands of RSD

	December 31, 2020	December 31, 2019
Unused portion of approved payment and credit card loan facilities and overdrafts	11,169,739	11,071,708
Irrevocable commitments for undrawn loans	20,191,910	33,033,872
Other irrevocable commitments	513,181	1,280,798
Balance as at December 31,	31,874,830	45,386,378

36. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

36.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Operations on behalf and for the account of third parties in the total amount of RSD 4,146,457 thousand consist mostly of funds from the commission credits of the Republic of Serbia for the repayment of housing loans in the amount of RSD 3,770,646 thousand, loans for the purchase of social apartments of budget institutions in the amount of RSD 334,127 thousand (loans taken from Beobanka in bankruptcy), while other funds mostly refer to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets in the amount of RSD 484,744,960 thousand, the Group discloses, among other things, the received financial assets for collateral and receivables in the amount of RSD 217,049,029 thousand, the nominal value of custody securities for clients of the Group in the amount of RSD 63,867,817 thousand, the nominal value of securities of the value in the Group's portfolio in the amount of RSD 143,953,590 thousand, the amount of the permanent write-off of balance sheet items - loans and placements by transfer into the off-balance sheet in the amount of RSD 34,332,438 thousand and the amount of the accounting write-off of credit receivables under the NBS Decision on accounting write-off balance assets in the amount of RSD 537,715 thousand.

The Parent bank, in accordance with the issued license for performing custodial transactions, also keeps the financial instruments of the clients on the securities accounts, for which the off-balance sheet is kept. Based on these activities, the Parent bank does not bear the credit risk.

36.4 Litigations

Based on the expert assessment of the Legal Department and attorneys representing the Group's members, in all disputes against members of the Group, in 2020, the management made provisions for potential losses in litigations in the amount of RSD 1,797,624 thousand (Note 32).

As at December 31, 2020 contingent liabilities based on the claims amount against the members of the Group, were estimated at the amount of RSD 7,782,720 thousand (for 21,406 active cases). The stated number and value of cases at the level of the Group includes 23 cases with a total value of RSD 74,970 thousand, which were finished in January 2021.

In addition, members of the Group conduct disputes against third parties, the most significant part of which is RSD 47,853,082 thousand (for 13,753 cases of the highest individual value). The Group's management expects positive outcomes in most of the disputes.

36.5 Tax Risks

Tax systems in the Republic of Serbia, Montenegro and Bosnia and Herzegovina are in the process of continuous revision and modification. In different circumstances, tax authorities may have different approaches to certain issues and may determine additional tax liabilities together with subsequent default interest and penalties. The Group's management believes that tax liabilities recorded in the financial statements are correctly stated.

37. RELATED PARTY DISCLOSURES

The biggest participation in shares of the Parent bank has NLB d.d. Slovenia, which owns 83.23% of ordinary shares of the Parent bank. 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 individuals are regarded as related parties if one person has control, joint control or significant influence on the adoption of financial and business decisions of another legal entity. Related parties are also those persons who 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 dependent entities are shown in Note 6.1.

37. RELATED PARTY DISCLOSURES (continued)

37.1 Loans and receivables from related parties

In thousands of RSD

	2020			2019		
Placements	Balance	Off balance	Total	Balance	Off balance	Total
Beomox doo	19,968	122	20,090	23,483	1,220	24,703
PMC Inzinjering	844,093	-	844,093	1	-	1
Emi house	1	-	1	-	-	-
NLB Beograd	5	-	5	-	-	-
NLB D.D. Slovenija	6,085	-	6,085	-	-	-
Physical entities	178,950	18,138	197,088	189,581	18,017	207,598
Total	1,049,102	18,260	1,067,362	213,065	19,237	232,302
Liabilities	Deposits	Borrowings	Total	Deposits	Borrowings	Total
PMC Inzinjering	-	-	-	89	-	89
Beomox doo	7,344	-	7,344	7,950	-	7,950
Arhitektonski biro studio 3	389	-	389	100	-	100
JP Jugoimport	-	-	-	4,964	-	4,964
Reprezend DOO	12	-	12	12	-	12
Bolero ZR	64	-	64	19	-	19
Euros osiguranje Banja Luka	25,507	-	25,507	51,528	-	51,528
Deposit Insurance Agency	50,994	-	50,994	42,996	-	42,996
The envious Association of Serbs of the Uskopljska Valley of Bugojno-Donji Vakuf	42	-	42	7	-	7
Private individuals	403,348	-	403,348	252,632	-	252,632
Total	487,700	-	487,700	360,297	-	360,297

37. RELATED PARTY DISCLOSURES (continued)

37.2 Income and expenses from related parties

In thousands of RSD

	2020		
	Interest	Fees	Total
Income			
PMC Engineering	9,475	29	9,504
Architectural Bureau STUDIO 3	-	8	8
Beomox доо	551	318	869
NLB Beograd	40	864	904
NLB D.D. Slovenija	1	1,357	1,358
Emi house	-	63	63
Bolero ZR	-	19	19
Win Win Retail	-	416	416
WinWin Shop	-	242	242
Euros Osiguranje Banja Luka	-	7	7
Deposit Insurance Agency	-	9	9
The envious Association of Serbs of the Uskopljska Valley of Bugojno-Donji Vakuf	-	7	7
Private individuals	7,494	810	8,304
Total income	17,561	4,149	21,710
Expenses			
Beomox doo	(7)	-	(7)
Euros Osiguranje Banja Luka	(559)	-	(559)
NLB Beograd	-	(642)	(642)
NLB D.D. Slovenija	(67)	(1,385)	(1,452)
Deposit Insurance Agency	(153)	-	(153)
Private individuals	(2,174)	(25)	(2,199)
Total expenses	(2,960)	(2,052)	(5,012)
Net Income	14,601	2,097	16,698

37. RELATED PARTY DISCLOSURES (continued)

37.2 Income and expenses from related parties (continued)

In thousands of RSD

	2019		
	Interests	Fees	Total
Income			
PMC Inzenjering	-	35	35
Arhitektonski biro studio 3	-	11	11
Beomox	482	318	800
JP Jugoimport	-	4,847	4,847
Bolero ZR	-	18	18
Euros osiguranje Banja Luka	-	7	7
Deposit insurance agency	-	13	13
The Native Association of Serbs of Uskopljanska Valley Bugojno-Donji Vakuf	-	6	6
Private individuals	8,227	1,043	9,270
Total Income	8,709	6,298	15,007
Expenses			
Beomox	(4)	(1)	(5)
JP Jugoimport	(4)	-	(4)
Euros osiguranje Banja Luka	(700)	-	(700)
Deposit insurance agency	(212)	-	(212)
Private individuals	(1,107)	(15)	(1,122)
Total Expenses	(2,027)	(16)	(2,043)
Net Income	6,682	6,282	12,964

37.3 Gross and net remunerations

Gross and net remunerations paid to the members of the Group members' Executive Board, Board of Directors and Audit Committee were as follows:

In thousands of RSD

	December 31, 2020	December 31, 2019
Gross remunerations Executive Board	164,469	129,270
Net remunerations Executive Board	125,785	94,490
Gross remunerations Board of Directors and Audit Committee	26,369	34,467
Net remunerations Board of Directors and Audit Committee	16,957	21,967

38. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Unreconciled Outstanding Item Statements

Based on the obligation to reconcile the situation with the debtors as at 31 December 2020, the Parent bank forwarded 3,281 open item statements.

Based on the analysis of the regular Annual Count conducted on December 31, 2020, the Parent bank has non-compliant statements of open items with 8 clients with the stated reason for the dispute.

Non-reconciled statements for two clients relate to clients who challenge the amount of receivables for given advances, receivables from issued invoices and rent receivables in the total amount of RSD 3,718 thousand (on which basis fourteen receivables were returned with unverified statements amounting to RSD 6,978 thousand).
Five clients dispute the amounts: receivables from domestic payments, fees for the activities of the issuing agent in RSD, in the amount of RSD 100 thousand.
In one case, the client partially disputed the amount relating to January overpayments in the amount of RSD 251 thousand.
The amount of allowances for disputed claims (and the amount of provisions for balance sheet items) is determined by the Bank's credit risk policy.

The Parent bank is in a continuos process of reconciliation of disputed items.

KomBank INVEST AD, Belgrade has no mismatch of open items.

Komercijalna banka ad Banja Luka has twelve non-compliant statements of open items in the amount of RSD 6,382 thousand.

Komercijalna banka ad Podgorica has one non-compliant statements of open items in the amount of RSD 99 thousand.

39. EVENTS AFTER THE REPORTING PERIOD

The new Board of Directors of the Parent bank held its first session as at January 5, 2021 and appointed the President and Deputy President of the Executive Board of the Parent bank who will take office when they receive all the necessary approvals from the regulator. At the same session, new members of the Audit Committee and the ALCO Committee were appointed.

An extraordinary session of the Parent bank's Assembly was held as at January 28, 2021, at which decisions were made on:

• amendments to the Parent bank's Articles of Association
• dismissal of the current President of the Assembly of the Parent bank (in the future, the Chairman of the Assembly will be elected at the session itself)
• increase of the ownership share in Komercijalna banka Banja Luka to 100% and
• determining the remuneration of the members of the Board of Directors and other boards of the Parent bank

During January and February 2021, in accordance with the terms of the NBS Decision on temporary measures for banks to adequately manage credit risk in the conditions of COVID-19, dated December 15, 2020 the Parent Bank has approved moratorium 3 for 1,648 clients with placements in the gross amount of RSD 4,506,368 thousand. Pursuant to the Decision of the NBS, days-past-due calculator for the client who submitted the request for moratorium 3 is stopped at the moment of submission of the request. The Parent bank reviewed each request for moratorium 3 individually and assessed whether significant increase in credit risk occured.

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

39. EVENTS AFTER THE REPORTING PERIOD (continued)

Events after the balance sheet date of Komercijalna banka a.d. Podgorica:

There were no events after the balance sheet date, until the date of issue of these financial statements, that would require any adjustments or additional disclosures in the consolidated financial statements.

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 issue of these financial statements, that would require any adjustments or additional disclosures in the consolidated financial statements.

Events after the balance sheet date of KomBank INVEST a.d. Belgrade, UCITS Fund Management Company:

There were no events after the balance sheet date, until the date of issue of these financial statements, that would require any adjustments or additional disclosures in the consolidated financial statements.

Apart from the events described in the previous points, there were no other significant events after the date of the reporting period that would require disclosure in the Notes to the consolidated financial statements for December 31, 2020.

40. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in dinars on December 31, 2020 and 2019 for certain major currencies are:

	NBS official exchange rate		NBS average exchange rate	
	2020	2019	2020	2019
USD	95.6637	104.9186	-	-
EUR	117.5802	117.5928	117.5780	117.8593
CHF	108.4388	108.4004	-	-
BAM	60.1178	60.1242	60.1167	60.2605

In Belgrade, March 15, 2021

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

Miroslav Perić, PhD
Member of the Executive Board

Vlastimir Vuković
Chief Executive Officer

KOMERCIJALNA BANKA AD BEOGRAD
NLB GROUP

ANNUAL REPORT OF OPERATIONS OF KOMERCIJALNA BANKA AD BEOGRAD GROUP FOR 2020

March 2021

CONTENTS

The consolidated financial statements of the Banking Group are presented in thousands of dinars. The dinar is the official reporting currency in the Republic of Serbia and the functional currency of the Parent Bank.

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) on the basis of officially published exchange rates in the Republic of Serbia.

The Consolidated Income Statement and the Consolidated Cash Flow Statement for the period have been reclassified using the average official exchange rate in the Republic of Serbia for 2020 of 117.5780 for one EUR and 60.1167 for one BAM, and other consolidated financial statements (balance sheet, statement of changes on capital and statement of other results) by applying the closing exchange rate on the balance sheet date of 117.5802 for one EUR or 60.1178 for one BAM.

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

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

1. *Key Performance Indicators of the Group*

ITEM	2020	2019	INDICES 2020/2019	2018	2017	2016
PROFIT & LOSS ACCOUNT (in RSD thousand)						
Profit/loss before tax	4.278.454	7.726.328	55,4	8.381.166	7.316.383	-6.533.686
Profit/loss after tax	3.001.511	8.399.865	35,7	8.380.334	8.267.996	-6.241.130
Net interest income	13.288.023	13.770.518	96,5	13.946.644	13.517.238	14.456.333
Net fee income	5.266.522	5.727.124	92,0	5.540.447	5.413.601	5.093.523
BALANCE SHEET (in RSD thousand)						
Consolidated balance sheet assets	500.295.263	475.755.894	105,2	441.586.959	400.108.316	428.827.608
Off-balance sheet transactions	534.330.733	503.834.838	106,1	496.783.044	507.341.556	551.970.548
Loans and receivables from banks and other financial organizations	18.865.483	26.990.004	69,9	21.037.537	30.233.555	43.216.681
Loans and receivables from customers	219.433.627	208.234.158	105,4	191.448.642	174.242.139	166.401.008
Deposits and other liabilities to banks, other financial organization and the central bank	8.096.190	8.318.606	97,3	8.228.284	6.137.776	9.822.519
Deposits and other liabilities to other customers	406.192.067	370.987.710	109,5	350.668.156	317.577.748	345.135.959
Capital	77.562.130	79.371.576	97,7	71.522.051	67.100.116	59.292.420
Capital adequacy	28,8%	27,1%	106,6	25,2%	24,6%	26,2%
Number of employees	2.985	3.056	97,7	3.076	3.106	3.152
PROFITABILITY RATIOS						
ROA	0,9%	1,7%	-	2,0%	1,8%	-1,5%
ROE (on total capital)	5,5%	10,2%	-	12,1%	11,6%	-10,5%
Net interest margin on total assets	2,7%	3,0%	-	3,3%	3,3%	3,4%
Cost / income ratio	69,17%	63,67%	-	60,41%	64,0%	63,2%
Operating expenses	12.834.821	12.414.562	103,4	11.772.192	12.119.512	12.363.223
Net income/expense from loan impairment	-1.264.236	1.587.676	-	51.681	36.342	-13.079.497
Assets per employee *(in RSD thousand)*	167.603	155.679	107,7	143.559	128.818	136.049
Assets per employee *(in EUR thousand)*	1.425	1.324	107,7	1.212	1.087	1.102

2. *Business Operations and Organizational Structure of the Group*

The Banking Group consists of three banks (the Parent Bank and two Subsidiaries) and one Investment Fund Management Company.
The Parent Bank, Komercijalna banka ad Beograd, performs the following operations within the framework of its registered business activities:

- Deposit operations (receiving and making deposits),
- Loan operations (lending and borrowing),
- Foreign currency, foreign currency exchange transactions and exchange operations;
- Payment transactions;
- Payment card issuing;
- Securities operations (issuing of securities, custody bank operations etc.);
- Broker/dealer operations;
- Issuance of guarantees, guarantees of a bill and other forms of sureties (guarantee operations);
- Debt purchase, sale and collection (factoring, forfeiting etc.);
- Insurance agency operations, with prior approval of the National Bank of Serbia;
- Other operations it is authorized to conduct under the law.

The Parent Bank has been authorized for international payments since 2003, for broker/dealer operations since 2005, custody bank operations since 2006 and for insurance agency operations since 2011.

Komercijalna banka AD Banja Luka is registered in Bosnia and Herzegovina for payment operations and credit and deposit operations in the country and abroad, in accordance with the regulations of the Republic of Srpska.

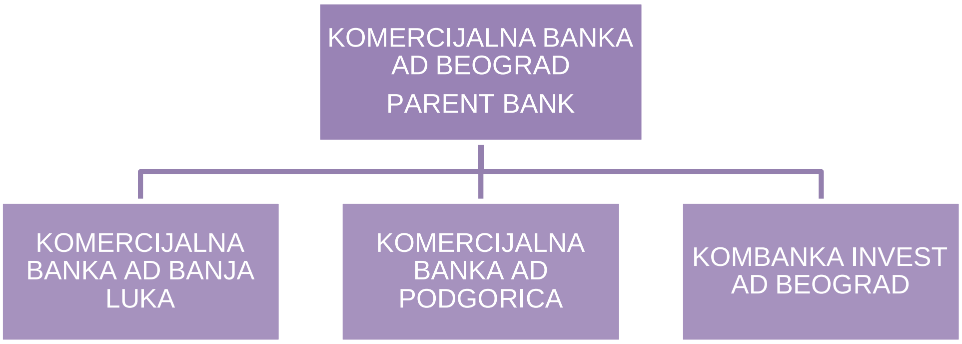
Komercijalna banka ad Podgorica performs the following operations:

- Deposit operations (receiving and making deposits), ,
- Loan operations (lending and borrowing), ,
- Issuing of guarantees and undertaking other commitments,
- Debt purchase and collection,
- Issuing, processing and recording of payment instruments,
- International payments,,
- Financial leasing,
- Trading in foreign payment instruments on its own behalf and for its own account or on behalf and for the account of its clients,
- Data collection, performing analysis and notifying and advising on creditworthiness of companies and entrepreneurs,
- Depository operations,
- Safekeeping of assets and securities,,
- Other ancillary operations within the Bank’s scope of operations.

KOMBANK INVEST AD Belgrade is registered to perform the following activities:

- Organizing and managing open-end investment fund,
- Forming and managing closed-end investment fund,
- Managing 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.

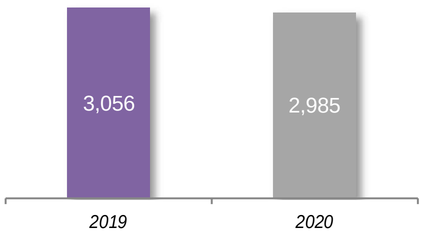
Organizational Chart of the Group



Human Resources of the Group

As at 31 December 2020, the Group had a total of 2,985 employees, 71 fewer than in the previous 2019. The Parent Bank reduced its staff by 75 employees, while KB Banja Luka increased the number of employees (4) during 2020. The number of employees in KB Podgorica remained unchanged. KB Invest also retained the same number of employees during 2020.

Number of employees of the Group



Key information about the Group members

	KOMERCIJALNA BANKA AD BANJA LUKA	KOMERCIJALNA BANKA AD PODGORICA	IFMC KomBank INVEST AD BEOGRAD
ADDRESS	Jevrejska 69	11, Cetinjska, VI floor Kula PC 1	Kralja Petra 19
COUNTRY	BiH, Republic of Srpska	Montenegro	Serbia
PHONE	00387-51-244-700	00382-20-426-300	011-330-8160

KOMERCIJALNA BANKA AD BANJA LUKA

99,998% owned by KB Beograd
0,002% owned by NLB dd Ljubljana

Komercijalna banka AD 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. At the end of 2020, the Bank had 163 employees and a business network consisting of 10 branches and 9 agencies.

KOMERCIJALNA BANKA AD PODGORICA

100,0% owned by KB Beograd

Komercijalna banka AD Podgorica was established in November 2002 as an affiliate of Komercijalna banka AD Belgrade and entered in the central register of the Commercial Court in Podgorica on March 6, 2003. At the end of 2020, the Bank had 148 employees and a business network consisting of 9 branches and 1 branch office.

KOMBANK INVEST AD BEOGRAD

100,0% owned by KB Beograd

Investment Fund Management Company (IFMC) Company KomBank INVEST AD Beograd is a company registered in the Register of Business Entities of the Business Registers Agency on February 5, 2008. The Company operates as a non-public joint stock company in accordance with the Law on Open-End Investment Funds with Public Offering, the Rulebook on Open-End Investment Funds with Public Offering and the Rulebook on Conditions for Performing the Activities of Open-End Investment Fund Management Company.

The company manages three investment funds, namely:

1. KOMBANK IN FOND, type of fund - balanced, fund currencies Rsd and Eur,
2. KOMBANK CASH FUND, type of fund - preservation of property value, currency of the fund RSD,
3. KOMBANK FOREIGN EXCHANGE FUND, type of fund - preservation of property value, fund currency Eur.

At the end of 2020, the Company had five employees.

Key information about the Parent Bank

Komercijalna banka AD 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 Business Registers Agency on April 14, 2006. The bank received a banking license from the National Bank of Yugoslavia on July 3, 1991.
The business year 2020 was marked by activities at the end of the Bank's privatization process. In February 2020, an Agreement was signed between the Ministry of Finance of the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana, Slovenia, on the purchase and sale of 83.23% of ordinary shares of Komercijalna banka a.d. Beograd. The "closing process", or the process of taking over (acquisition) of the Bank began then ceforth, as of March 2020. Nova Ljubljanska banka d.d. Ljubljana, Slovenia completed the process of taking over Komercijalna banka a.d. Beograd on December 30, 2020. On that day, the Agreement on the transfer of shares of Komercijalna banka a.d. Beograd was signed between the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana, Slovenia.

Shareholder of the Bank holding more than 5% of the capital

KOMERCIJALNA BANKA AD BEOGRAD
Nova Ljubljanska banka d.d. Ljubljana -83,23%

In addition to the branch network, the Bank operates in Belgrade at three locations

Address/Head Office /	14, Svetog Save Street	42-44, Svetogorska Street	29, Makedonska Street
PHONE	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

After 2017 and the first major reorganization of the business network, and after analyzing the effects of changes in operations, the Bank in early 2018 implemented additional changes in the business network.

In March 2018, a new change of organization was made within the corporate business function, when the sectors in charge of operations with Small and Medium-Sized Enterprises, Belgrade, Central Serbia and Vojvodina were formally established, instead of Business and Corporate Centers. The essential change included the functional merging of sales and credit analysis within the same organizational form (sectors in charge of dealing with small and medium enterprises, Belgrade, Central Serbia and Vojvodina).

In 2019 and 2020, there were no changes in the organization within the corporate business function.

During 2020, the Parent Bank conducted operations in the retail segment through a network of 203 branches grouped in six Business Centers and the Kosovska Mitrovica Branch. Operations with legal entities took place through three sectors in charge of dealing with small and medium sized enterprises (Vojvodina, Belgrade and Central Serbia) and the sector in charge of operations with large corporate clients.

Business Network of Parent Bank

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

	SECTORS	SEAT
1.	Corporate Sector – Large Clients	Svetogorska 42-44, Beograd
2.	Corporate Sector ' SME –Vojvodina	Bulevar oslobođenja 88, Novi Sad
3.	Corporate Sector ' SME –Beograd	Svetogorska 42-44, Beograd
4.	Corporate Sector ' SME – Central Serbia	Svetogorska 42-44, Beograd

3. FINANCIAL POSITION AND RESULTS OF OPERATIONS OF THE GROUP

3.1. Macroeconomic business conditions

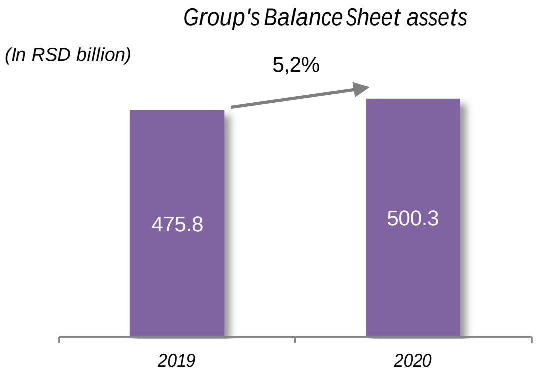
Macroeconomic Indicators	SERBIA	MONTENEGRO [1]	REPUBLIC OF SRPSKA
Gross Domestic Product	EUR 46.9 billion [2]	EUR 4.6 billion [3]	EUR 5.6 billion (KM 10.9 billion)
GDP trends	-1,0%[4]	-17,0%[5]	-3,0%[6]
Consumer price index (XII 2020 / XII 2019)	+1,3%	-0,1%[7]	-1,7%[8]
Banking sector assets	+10,4%[9]	-0,3%[10]	+0,5%[11]
Banking sector assets as a share of GDP	113,6%[12]	99,6%	75,7%
Industrial production	-1,4%[13]	-1,5%	-1,8%[14]
NPL of banking sector, or non-performing assets	3,5%[15]	5,0%	5,3%[16]
Unemployment rate	8,7%[17]	19,0%	15,1%

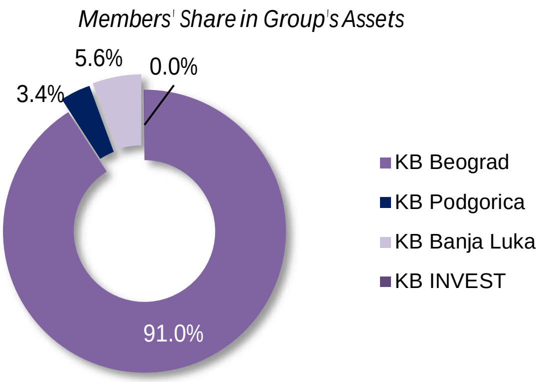
Note: Macroeconomic business conditions of the Group members according to the available data of the competent institutions

3.2. Group's Operations

ITEM	2020	2019	2018	2017	2016
(in RSD thousand)					
GROUP'S BALANCE SHEET ASSETS	500.295.263	475.755.894	441.586.959	400.108.316	428.827.608
Komercijalna banka a.d. Beograd	455.152.974	428.857.730	398.447.676	366.074.702	397.222.810
Komercijalna banka a.d. Banja Luka	27.879.636	29.256.166	27.624.178	20.075.186	18.385.992
Komercijalna banka a.d. Podgorica	17.088.819	17.472.505	15.353.955	13.801.705	13.212.323
KomBank INVEST a.d. Beograd	173.834	169.493	161.150	156.723	6.483

1 Data for Montenegro are for November 2019 (last available data)
2 MFIN, Basic Indicators of Macroeconomic Trends, February 2021 (2020 estimate))
3 Gross domestic product on September 30, 2020
4 MFIN, Basic Indicators of Macroeconomic Trends, February 2021 (2020 estimate))
5 Estimation of the Central Bank of Montenegro for GDP in 2020
6 The data refers to the period September 2020 compared to September 2019.
7 The average rate of consumer prices for 9 months of 2020 compared to the same period in 2019
8 Data refer to the period November 2020/November 2019
9 Growth of Serbian banking sector's assets September 30 2020/2019
10 CBM, Monetary developments, Data refer to the period September 30 2020/2019
11 The data refers to September 30, 2020 compared to December 31 2019.
12 Data refer to GDP and assets of the sector on September 30, 2020.
13 MFIN, Current Macroeconomic Trends, January 2021 (data for November 2020)
14 The data refer to the period November 2020/November 2019
15 NBS, Macroeconomic Trends in Serbia, January 2021, data refer to November 2020
16 Data refer to September 2020
17 Republic Statistical Office, Labor Force Survey, three-quarter average of 2020



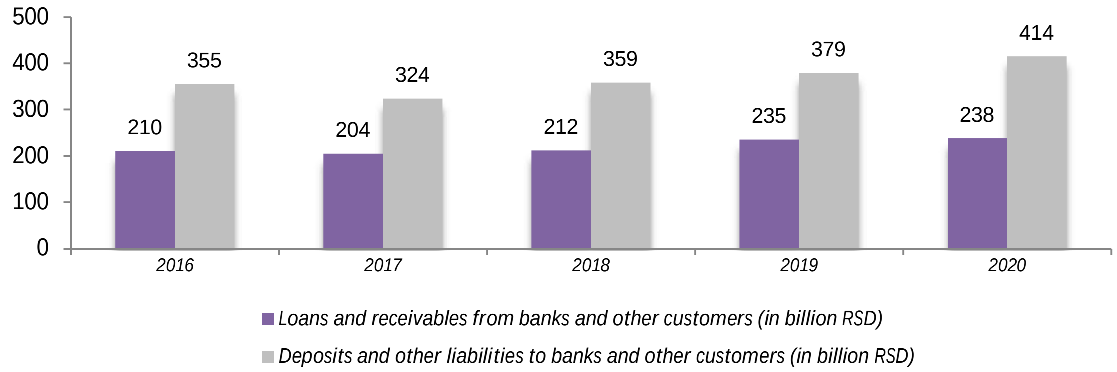


The Group's balance sheet assets at the end of 2020 increased compared to the end of 2019 by RSD 24,539.4 million (5.2%). The share of the Parent Bank in the consolidated assets is still dominant (the members of the Group make up 9.0% of the total consolidated assets).

Loans and Liabilities of Banks and Customers as at 31 December 2020 by Group Members

ITEM	2020	2019	2018	2017	2016
(in RSD thousand)					
LOANS AND RECEIVABLES FROM BANKS AND CUSTOMERS	238.299.110	235.224.162	212.486.179	204.475.694	209.617.689
Growth rate	1,3%	10,7%	3,9%	(2,5%)	6,3%
Komercijalna banka a.d. Beograd	206.597.421	205.497.840	185.917.193	182.944.400	190.830.293
Komercijalna banka a.d. Banja Luka	18.873.327	18.734.989	16.811.744	13.647.511	12.435.930
Komercijalna banka a.d. Podgorica	12.811.983	10.974.943	9.740.866	7.883.783	6.351.466
KomBank INVEST a.d. Beograd	16.379	16.390	16.376		
DEPOSITS AND PAYABLES TO BANKS AND CUSTOMERS	414.288.257	379.306.316	358.896.440	323.715.524	354.958.478
Growth rate	9,2%	5,7%	10,9%	(8,8%)	5,0%
Komercijalna banka a.d. Beograd	376.433.132	339.234.701	321.271.358	295.755.134	329.732.740
Komercijalna banka a.d. Banja Luka	23.109.297	24.601.533	23.547.061	15.803.267	14.242.849
Komercijalna banka a.d. Podgorica	14.745.828	15.470.082	14.078.021	12.157.123	10.982.889
KomBank INVEST a.d. Beograd					

Movement of loans and deposits of the Group from 2016 to 2020



The share of the Parent Bank in loans and receivables from banks and other customers of the entire Group was 86.7% at the end of 2020, KB Banja Luka 7.9%, and KB Podgorica 5.4%. Share of the Parent Bank in deposits and other liabilities to banks and other customers of the Group was also dominant with 90.9% (KB Banja Luka participates with 5.6%, and KB Podgorica with 3.6%).

3.3. Consolidated Balance Sheet

Group's Consolidated Assets as of December 31 2020

No	BS POSITION	31.12.2020	31.12.2019	INDICES	SHARE 2020
1	2	3	4	5=(3:4)*100	6
	ASSETS (*in RSD thousand)*				
1.	Cash and assets held with the central bank	86.892.070	76.654.402	113,4	17,4%
2.	Pledged financial assets	-	-	-	-
3.	Receivables from derivatives	-	-	-	-
4.	Securities	158.438.656	144.479.431	109,7	31,7%
5.	Loans and receivables from banks and other financial organizations	18.865.483	26.990.004	69,9	3,8%
6.	Loans and receivables from customers	219.433.627	208.234.158	105,4	43,9%
7.	Changes in fair value of items that are hedged	-	-	-	-
8.	Receivables from derivatives intended for hedging	-	-	-	-
9.	Investment in affiliates and joint ventures	-	-	-	-
10.	Investment in subsidiaries	-	-	-	-
11.	Intangible assets	578.413	754.500	76,7	0,1%
12.	Property, plant and equipment	6.743.199	7.254.391	93,0	1,3%
13.	Investment property	2.145.007	2.202.616	97,4	0,4%
14.	Current tax assets	19.661	6.786	289,7	0,0%
15.	Deferred tax assets	2.484	1.076.255	0,2	0,0%
16.	Available-for-sale non-current assets and assets from discontinued operations	370.663	500.740	74,0	0,1%
17.	Other assets	6.806.000	7.602.611	89,5	1,4%
	TOTAL ASSETS (from 1 **to** 17)	500.295.263	475.755.894	105,2	100,0%

Of the individual balance sheet items, loans and receivables from customers had the largest share in the Group's balance sheet assets (43.9%), whereby showing a growing trend during 2020 (they increased by 5.4% y.o.y.). Securities represent a significant position of consolidated assets, with a share of 31.7%, and achieved growth during 2020 (increased by 9.7% y.o.y.) Cash and assets with the central bank accounted for 17.4% of total consolidated assets and increased by 13.4% y.o.y. Balance sheet position loans and receivables from banks and other financial organizations account for 3.8% of consolidated balance sheet assets and recorded y.o.y. decrease of 30.1%.

Group's Consolidated Liabilities as at December 31 2020

No	BS POSITION	31.12.2020	31.12.2019	INDICES	SHARE 2020
1	2	3	4	5=(3:4)*100	6
	LIABILITIES (*in RSD thousand*)				
1.	Liabilities from derivatives	-	-	-	-
2.	Deposits and other liabilities to banks, other financial organizations and Central Bank	8.096.190	8.318.606	97,3	1,6%
3.	Deposits and other liabilities to other customers	406.192.067	370.987.710	109,5	81,2%
4.	Liabilities from derivatives intended for hedging	-	-	-	-
5.	Changes in fair value of items that are hedged	-	-	-	-
6.	Liabilities from securities	-	-	-	-
7.	Subordinated liabilities	-	-	-	-
8.	Provisions	2.696.346	2.483.410	108,6	0,5%
9.	Liabilities from assets available-for- sale and assets from discontinued operations	-	-	-	-
10.	Current tax liabilities	2.079	2.673	77,8	0,0%
11.	Deferred tax liabilities	176.573	32.349	545,8	0,0%
12.	Other liabilities	5.569.878	14.559.570	38,3	1,1%
	TOTAL LIABILITIES (from 1. to 12.)	422.733.133	396.384.318	106,6	84,5%
	CAPITAL				
13.	Share capital	40.034.550	40.034.550	100,0	8,0%
14.	Profit	4.811.998	9.981.896	48,2	1,0%
15.	Loss	1.261.380	1.370.332	92,0	0,3%
16.	Reserves	33.976.892	30.725.392	110,6	6,8%
17.	Non-controlling interest	70	70	100,0	0,0%
	TOTAL CAPITAL (from 13. to 17.)	77.562.130	79.371.576	97,7	15,5%
	TOTAL LIABILITIES	500.295.540	475.755.894	105,2	100,0%

On the consolidated liabilities side, deposits and other liabilities to other customers were dominant with a share of 81.2%. The position of deposits and other liabilities to other customers increased compared to 2019 by 9.5%.

In the consolidated liabilities, total capital participated with 15.5% (participation as of December 31, 2019 was 16.7%). Compared to 2019, the Group's capital decreased slightly (a decrease of 2.3%) primarily due to a decrease in profit from previous years, or precisely due to the distribution of profit from 2019 and retained earnings from previous years. As a result of the distribution, reserves increased by 10.6% y.o.y. at the end of 2020.

Consolidated Balance Sheet as of December 31 2020 – members of the banking Group

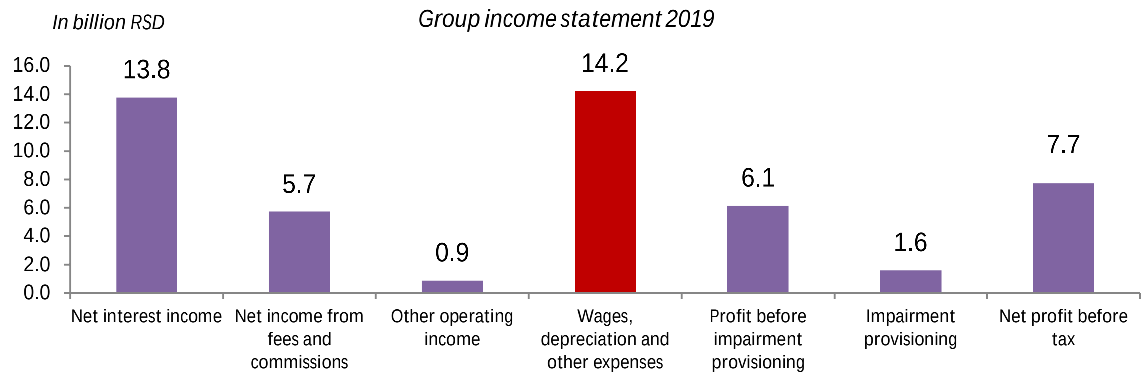
	POSITION	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	ASSETS / Position *(in 000 RSD)*					
	Cash and assets held with CB	80.045.107	4.935.711	1.911.252	0	86.892.070
	Securities	153.776.323	3.244.162	1.265.605	152.566	158.438.656
	Loans and receivables from banks and other financial organizations	17.301.332	940.455	607.317	16.379	18.865.483
	Loans and receivables from customers	189.296.089	17.932.872	12.204.666	0	219.433.627
	Intangible assets	510.669	38.478	29.266	0	578.413
	Property, plant and equipment	6.045.330	344.748	352.977	144	6.743.199
	Investment property	1.819.507	248.134	77.366	0	2.145.007
	Current tax assets	12.237	7.347	0	77	19.661
	Deferred tax assets	0	0	0	2.484	2.484
	Available-for-sale non-current assets and assets from discontinued operations	130.426	102.058	138.179	0	370.663
	Other assets	6.215.954	85.671	502.191	2.184	6.806.000
	TOTAL ASSETS	455.152.974	27.879.636	17.088.819	173.834	500.295.263
	LIABILITIES / Position					
	Deposits and other liabilities to banks and other financial organizations	3.733.731	4.075.827	286.632	0	8.096.190
	Deposits and other liabilities to other customers	372.699.401	19.033.470	14.459.196	0	406.192.067
	Provisions	2.528.051	42.251	110.585	15.459	2.696.346
	Current tax liabilities	0	1.577	502	0	2.079
	Deferred tax liabilities	147.400	20.841	8.332	0	176.573
	Other liabilities	4.975.476	415.181	178.329	892	5.569.878
	TOTAL LIABILITIES	384.084.059	23.589.147	15.043.576	16.351	422.733.133
	Total capital	76.976.980	601.096	0	17.460	77.562.130
	Total lack of capital *	0	0	33.406	0	0
	TOTAL LIABILITIES	461.061.039	24.190.243	15.010.170	33.811	500.295.263

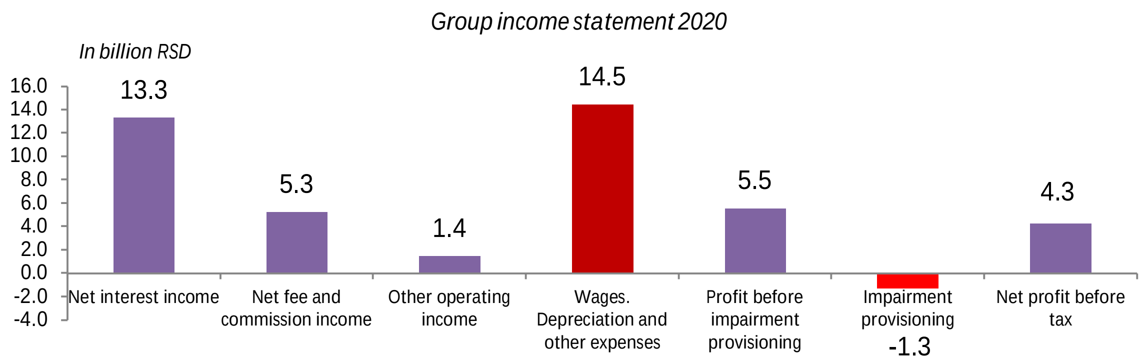
* Observed by segments of consolidated Balance Sheet, Komercijalna banka a.d. Podgorica as at 31.12.2020 has reported negative capital as a result of consolidation of the positions within the capital due to elimination of internal relations, when the share capital is reduced to zero, above all due to the fact that the Parent Bank is the only owner of Komercijalna banka a.d. Podgorica and concurrently, due to negative result from the previous period, which is higher than the amount of formed reserves and realized profit. Capital in individual financial statements of Komercijalna banka a.d. Podgorica is within the legally prescribed limits.

3.4. Consolidated Profit & Loss Account

Consolidated Profit & Loss Account for the period from 1 January – 31 December 2020

No.	POSITION	31.12.2020	31.12.2019	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSE *(in RSD thousand)*			
1.1.	Interest income	14.731.985	15.098.191	97,6
1.2.	Interest expenses	-1.443.962	-1.327.673	108,8
1.	Net interest income	13.288.023	13.770.518	96,5
2.1.	Fee and commission income	7.205.485	7.662.254	94,0
2.2.	Fee and commission expenses	-1.938.963	-1.935.130	100,2
2.	Net fee and commission income	5.266.522	5.727.124	92,0
3.	Net gain/loss from the change in fair value of financial instruments	98.046	75.058	130,6
4.	Net profit/loss from reclassification of financial instruments	-	-	-
5.	Net profit/loss from derecognition of financial instruments that are measured at fair value	174.399	353.502	49,3
6.	Net profit/loss from hedging	-	-	-
7.	Net income/expense from currency exchange differences and the effects of agreed currency clause	17.980	44.240	40,6
8.	Net income/expense from impairment of financial assets that are not measured at fair value through P&L	-1.264.236	1.587.676	-
9.	Net profit /loss from derecognition of financial instruments that are measured at amortized cost	-	-579.933	-
10.	Net profit /loss from derecognition of investment in affiliates and joint ventures	-	-	-
11.	Other operating income	227.097	166.546	136,4
	TOTAL NET OPERATING INCOME	17.807.831	21.144.731	84,2
12.	Costs of salaries, fringe benefits and other personal expenses	-6.491.790	-5.537.942	117,2
13.	Depreciation costs	-1.174.588	-1.193.480	98,4
14.	Other income	921.602	810.907	113,7
15.	Other expenses	-6.784.601	-7.497.888	90,5
	PROFIT/LOSS (-) BEFORE TAX	4.278.454	7.726.328	55,4
16.	Corporate income tax	-7.309	-14.088	51,9
17.	Deferred tax gain	122.101	1.488.290	8,2
18.	Deferred tax loss	-1.391.735	-800.665	173,8
19.	PROFIT/LOSS(-) AFTER TAX	3.001.511	8.399.865	35,7
	Profit attributable to the parent entity	3.001.510	8.399.863	35,7
	Profit attributable to owners of non-controlling interest	1	2	50,0
	Basic earnings per share	173	532	32,5
	Reduced (diluted) earnings per share	173	532	32,5





During 2020, a profit before tax in the amount of RSD 4,278.5 million was generated at the level of KB Group. Consolidated profit before tax of KB Group during 2020 decreased by 44.6% or RSD 3,447.9 million y.o.y. The Group's interest income during 2020 decreased slightly y.o.y. (a decrease of 2.4%), while interest expenses increased (an increase of 8.8%). This resulted in a decrease in net interest income of the Group in the amount of RSD 482.5 million or 3.5%.

Consolidated income from fees and commissions, during 2020 decreased compared to the same period in 2019 by 6.0%. Fees and commission expenses increased slightly by 0.2%, which resulted in the Group's net fee and commission income being lower by 8.0% y.o.y.

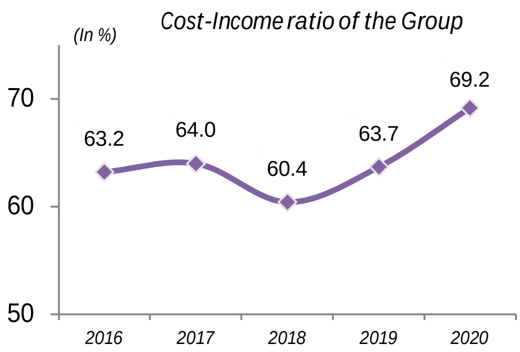
During 2020, net expenses were recorded from the impairment of financial assets that are not measured at fair value through profit or loss in the amount of RSD 1,264.2 million, unlike in 2019 when a net income was recorded in the amount of RSD 1,587.7 million. The mentioned changes during 2020 also affected the final business result of the entire Group.

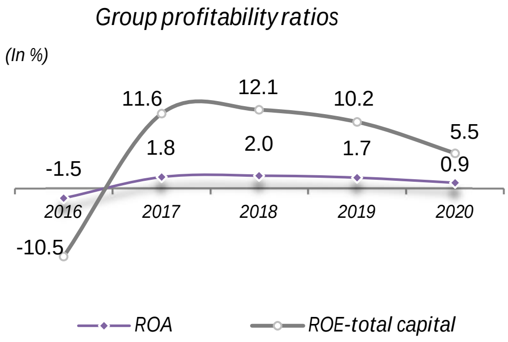
During 2019, a net loss was recorded due to the derecognition of financial instruments valued at amortized cost in the amount of RSD 579.9 million, while during 2020 this position was not recorded.

Costs of wages, financial compensations, depreciation costs and other expenses increased 1.6% y.o.y. thus being higher by RSD 221.7 million.

The position of other revenues of the Group recorded an increase of RSD 110.7 million, i.e. an increase of 13.7% during 2020 compared to 2019.

Realized consolidated profit before taxes during 2020 amounts to RSD 4,278.5 million, lower by 44.6% compared to the result achieved during 2019.





Consolidated P&L by Group’s Members for the period from 1 January to 31 December 2020

	POSITION	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST	TOTAL GROUP
1	2	3	4	5	6	7
	(in thousand RSD)					
1.1.	Interest income	13.185.934	820.920	724.595	536	14.731.985
1.2.	Interest expenses	-1.130.408	-197.145	-116.409	-	-1.443.962
1.	Net interest income	12.055.526	623.775	608.186	536	13.288.023
2.1.	Fee income	6.688.682	264.867	225.244	26.692	7.205.485
2.2.	Fee expenses	-1.820.743	-71.331	-46.617	-272	-1.938.963
2.	Net fee income	4.867.939	193.536	178.627	26.420	5.266.522
3.	Net profit/loss from change in fair value of financial instruments	95.629	-	-	2.417	98.046
4.	Net profit/loss from derecognition of financial instruments that are measured at fair value	157.796	13.526	3.068	9	174.399
5.	Net profit/loss from currency exchange differences and the effects of agreed currency clause	-61.471	5.426	74.026	-1	17.980
6.	Net income / expense from impairment of financial assets. which are not measured at fair value through profit or loss	-1.089.366	-80.183	-94.687	-	-1.264.236
7.	Net profit/loss on derecognition of financial instruments measured at amortized cost	-	-	-	-	-
8.	Other operating income	211.094	10.535	5.468	-	227.097
I	TOTAL NET OPERATING INCOME	16.237.147	766.615	774.688	29.381	17.807.831
9.	Costs of salaries, fringe benefits and other personal expenses	-5.819.946	-368.040	-288.339	-15.465	-6.491.790
10.	Amortization expenses	-977.383	-107.505	-89.651	-49	-1.174.588
11.	Other income	859.417	32.384	29.789	12	921.602
12.	Other expenses	-6.211.126	-265.220	-297.400	-10.855	-6.784.601
II	PROFIT BEFORE TAX	4.088.109	58.234	129.087	3.024	4.278.454
13.	Income tax	-	-6.806	-502	-1	-7.309
14.	Deferred tax profit	120.049	-	1.626	426	122.101
15.	Deferred tax loss	-1.384.134	-161	-7.440	-	-1.391.735
III	PROFIT/LOSS (-) AFTER TAX	2.824.024	51.267	122.771	3.449	3.001.511
	Profit belonging to owners with no control rights	-	1	-	-	1

4. ENVIRONMENTAL INVESTMENTS

The Group respects 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. By adopting the Environmental Risk Management Policy and Procedure at the level of the Banking Group, the Group has defined standards for identifying, monitoring and managing environmental and social risk in the process of approving and monitoring placements. This document is adequately applied at the level of the Group members through the incorporation of legal provisions at the level of each member, in compliance with local regulations and internal bylaws of the Group members complied with the Bank's bylaws. 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. Internal bylaws also define the procedure for resolving and responding to complaints based on the direct or indirect impact of business activities on the natural and social environment.

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

Through the categorization of loans depending on the level of risk to the natural and the social environment, the Group estimates the percentage of activities that may have harmful consequences for the environment. Also, the Group continuously monitors extraordinary events with its clients that may have a negative impact on the environment, health or safety or the community as a whole and regularly informs the governing bodies of individual members and the banking group thereof.

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 activities, projects or activities excluded from funding or operates in accordance with defined limits. activities, thus meeting the standards of good international practice in this area. At the end of 2020, the Bank has no exposure to highly controlled persons engaged in the activities of production and trade in weapons and military equipment, or dual-use goods.

The members of the Banking Group report on a monthly basis to the Risk Management Function of the parent Bank and other competent business and operational functions on the levels of risk from the aspect of impact on the environment and society. In case of exceeding the internal limits, the members of the Banking Group submit an explanation with the proposed measures and action plan, and the Risk Management Function reports to the Executive Board of the Parent Bank. The risk management function reports semiannually to the Executive and Management Board of the Parent Bank about the management of environmental and social risks on a consolidated basis.

5. SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END

From December 31, 2020 to the end of February 2021, one extraordinary session of the General Meeting of Shareholders of Komercijalna banka ad Beograd - Parent Bank was convened and held (January 28, 2021).

The following decisions were adopted at the GMS meeting referred to above:

- Decision on Amendments and Supplements to Komercijalna banka ad Beograd Articles of Association.
- Decision on Release from Duty of a Chair of the General Meeting of Shareholders of Komercijalna Banka ad Beograd.
- Approval of the General Meeting of Bank Shareholders on Increase of Equity Stake in Komercijalna Banka ad Banja Luka to 100%.
- Decision Determining Fees Payable to the Members of the Bank's Management Board and Other Committees of the Bank.

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

6. PLAN FOR THE FUTURE DEVELOPMENT OF THE GROUP

Strategies and business plans for the future period are defined and adopted at the level of individual members of the Group [18].

The operations of subsidiary banks, members of the Group, as well as the Parent Bank in the coming period will generally be focused primarily on maintaining but also on the growth of market share with an acceptable level of business risk, primarily credit risk. The Group's operations in the forthcoming period will be limited and determined by the new circumstances of the present pandemic of the COVID-19 virus, which has been present in Serbia and the region since March 2020 and will continue in 2021.

When it comes to lending to the retail sector, as a more profitable customer segment, the Group's member banks will be focused on expanding their customer base and offering innovative digital products in the forthcoming period.
In addition to the retail segment, the focus of lending activity will be micro-clients, small and medium-sized enterprises, which have shown the required level of business flexibility even in the conditions of the corona virus pandemic.

A cautious policy of approving loans to business clients will be implemented in the period to come, the emphasis will primarily be on the quality of the loan portfolio, with enhanced monitoring of clients' operations. The members of the Group will focus their business on keeping non-performing loans (NPLs) at a low level in the future, despite the expected difficult business conditions. The management of the Group members will be focused on accelerating the loan approval process, i.e. automation of loan processing, as well as on further digitalization of operations.

[18] We have presented parts taken from individual strategies and business plans of the Group members within this item of the report

The main pillars of the development strategy of Komercijalna banka a.d. Beograd- the Parent Bank, in the future three-year period are as set forth below:

- Growth of loans to clients (as a key aspect of future profitability in a situation of lower interest rates on government securities);
- Maintaining the quality of the loan portfolio in order to keep the NPL as well as the cost of credit risk at a low level;
- Improvement - optimization of customer structure - targeting customers based on demographics and standards (taking into account the development of innovative products, based on the digitization process); in addition to large companies, the Bank's focus will be on the segment of public companies at the national and local levels; more extensive lending for dedicated real estate development projects - project financing;
- Growth of share of fees and commission income in relation to interest income (the Bank will focus more on fee and commission income due to the tendency of falling interest rates and the application of digitalization and new products in order to attract new, younger population clients);
- Control over OPEX and further improvement of efficiency in business (through stricter financial discipline) in order to reduce the cost/income ratio, throughout the projected period (CIR);
- Maintaining an adequate capital position, with the payment of dividends from projected amount of profit generation in the next three-year period.

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

- Growth in lending to customers as a key aspect of profitability (proactive cross-selling initiatives of other products aimed at generating sustainable growth of high quality products, with growth of loans to customers focused on stability and quality of the loan growth);
- Early identification and control of risks that should lead to a low level of net impairment expenses (continuation of a loan approval policy where the emphasis will be on the stability and quality of the loan portfolio);
- Improving the structure of clients (in addition to large enterprises, orientation towards local self-government units, small and medium enterprises and micro clients);
- Stable share of fee and commission income (greater focus on fee and commission income growth to respond to environmental challenges, low and declining interest rates);
- Better control of operating expenses (better financial discipline and control of operating expenses, reduction of CIR ratio during the entire period of the business plan);
- Maintaining a good capital position (the goal is to increase total capital by the end of the projected period, increasing in this way the regulatory capital; capital growth, which will also come from growing profit generation).

On December 30 2020, Nova Ljubljanska banka d.d. Ljubljana (hereinafter: NLB d.d. Ljubljana) made the payment of the purchase price under the Agreement on the sale and purchase of shares in Komercijalna banka AD Beograd concluded on February 26, 2020 with the Government of the Republic of Serbia, and thus became its majority shareholder with 83.23% of shares. Given that 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 the status of persons in a special relationship with the Bank.

Through purchase of one share of Komercijalna banka Banja Luka from the shareholder Insurance and Export Financing Agency of the Republic of Srpska at Banja Luka's Stock Exchange on December 24 2020, Nova Ljubljanska Banka d.d. Ljubljana became controlling shareholder of Komercijalna Banka AD Banja Luka.

In accordance with the changed ownership structure of Komercijalna banka ad Banja Luka and KB Group, the activities of transition and integration of KB Group members have begun, it is possible to change the strategic goals, by adjusting them to the requirements of NLB Group, according to which the Bank will revise relevant bylaws, including the Strategy and Business Plan.

The main strategic business goals of Komercijalna banka a.d. Podgorica for the future planning period are as set forth below:

- Directing attention and activities primarily to natural persons of higher solvency, regular monthly income, employees in stable institutions, public institutions, business entities;
- Expanding cooperation with individual clients through their attachment to as many products/services that the Bank has to offer;
- Development and improvement of the Bank's image and continuous communication with clients in order to increase the number of small deposits (demand and time deposits) of individuals and retain all deposits in the Bank;
- Intensify activity in the cross-selling segment of the Bank in order to strengthen customer relations among retail customers, and increase the number of products and revenue per customer;
- Expanding and completing activities on digitalization of business and application of new banking technologies in order to complete the offer to clients and facilitate the use of services, while reducing costs;
- In retail loans, the main focus will be on cash in relation to housing loans due to more favorable price conditions;
- Maintaining the level and quality of the credit portfolio of legal entities while preserving the client base;
- Increase in the number of clients in the segment of micro and small enterprises that are not significantly affected by the crisis caused by the COVID-19 virus pandemic;
- Strengthening the base of Bank's depositors;
- Maintaining continuity in guarantee business.

Business goals of the UCITS fund management company KOMBANK INVEST a.d. Beograd for the future planning period:

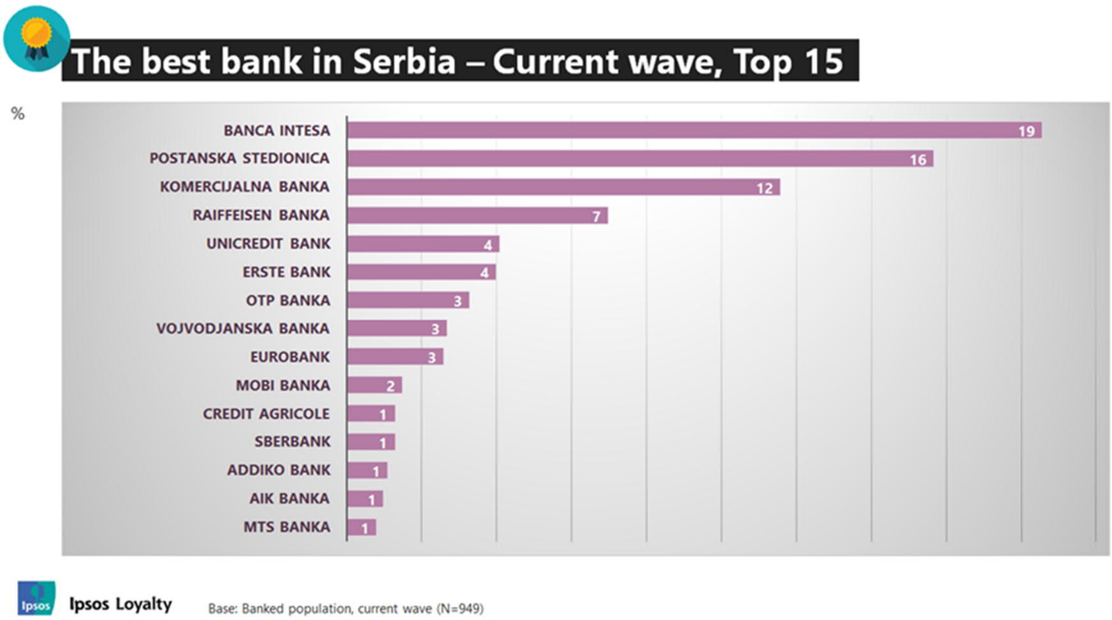
- Increase in balance sheet assets;
- Keep obligations of the company at the same level;
- Investment of the company's assets in investment units of the Monetary Fund;
- Growth of income from fund management, stable financial income with control of the amount of operating expenses, which will result in a significant increase of annual net profit;
- Respective growth of business results and increase in the volume of business by using the benefits provided by the legislation - direct payments in EUR, free trade in investment units and pledges of the first class over the investment units;
- Adaptation to the new economic crisis that resulted from COVID-19 pandemic.

7. *RESEARCH AND DEVELOPMENT*

During 2020, Komercijalna Banka closely and up-to-date followed the developments on the financial market and the media scene and successfully adapted to the conditions and changes in them in order to maintain its leading position, as shown by the conducted research.

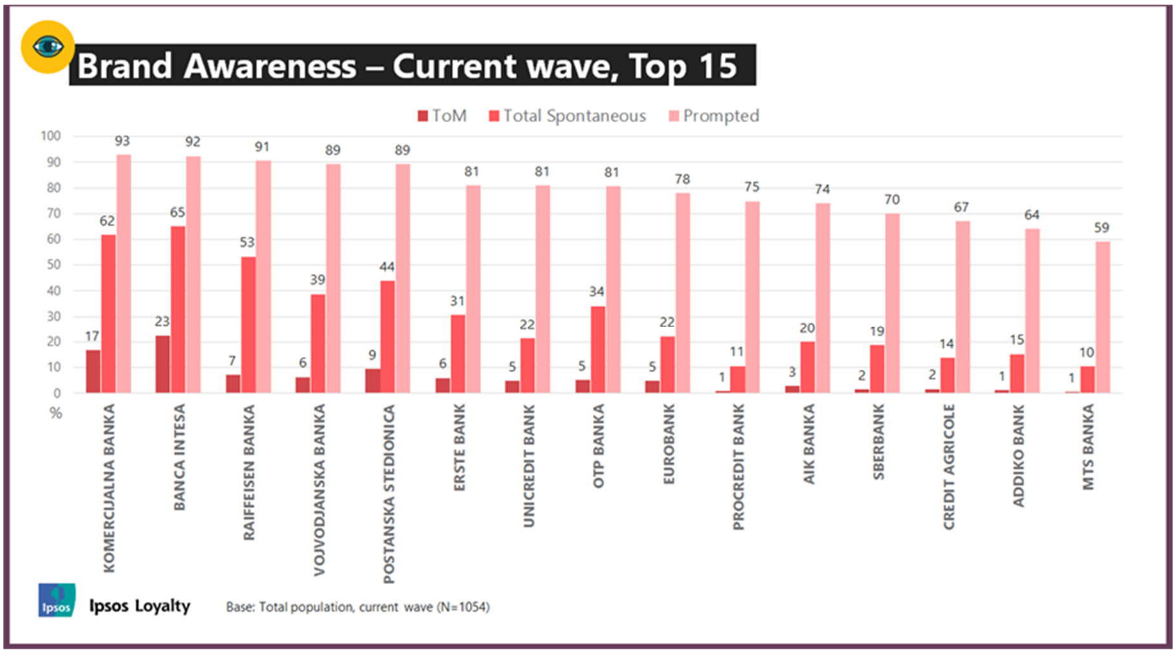
The market position of the Bank as a brand, its products and services were checked during 2020, through the banking Omnibus, conducted by the research agency "IPSOS", specialized in this type of research. Research shows that the Bank has held one of the leading positions in the eyes of the public for a long time, measured by the criteria of brand recognition, quality and satisfaction with products and services used by customers. All research results are posted on the Bank's internal portal, and the target groups are introduced to them, in order to further strengthen the Komercijalna Banka brand.

The best banks in Serbia (banking Omnibus, November 2020):



The report of the last banking Omnibus (from November 2020) shows that Komercijalna banka, in the opinion of the respondents, is ranked as the first in terms of brand recognition - Prompted (prompted brand awareness) among the top 15 banks in Serbia.

Brand recognition of banks in Serbia (Banking Omnibus, November 2020):



The results of the research help in the process of making business decisions, especially important in the segment of developing new and improving and modifying existing products and services.

In the continuous process of monitoring the market signals and the needs of customers and potential customers, the Group's business divisions have in the previous period offered customers new and/or improved existing products and services of the Bank.

8. REPURCHASE OF OWN SHARES AND STAKES

The Group members did not acquire their own shares in the previous business year, and do not intend to acquire their own shares in the following period.

9. PERFORMANCE OF SUBSIDIARIES BEFORE CONSOLIDATION

Subsidiary banks: Komercijalna banka AD Podgorica and Komercijalna banka AD Banja Luka keep business books and prepare financial statements in accordance with the accounting regulations of the Republic of Montenegro, and/or Bosnia and Herzegovina (Republic of Srpska). KOMBANK INVEST AD Beograd prepares financial statements in accordance with the accounting regulations of the Republic of Serbia

For the purpose of preparing consolidated financial statements, the individual audited financial statements of subsidiaries and KOMBANK INVEST Company have been adjusted to the presentation of financial statements based on:

- accounting regulations of the Republic of Serbia,
- internal by-laws of the Parent Bank - Komercijalna banka AD Beograd and
- relevant IAS and IFRS.

Reclassified individual balance sheets of Group members before consolidation as of 31.12.2020

ITEM	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST
(in thousand RSD)				
Cash and balances with Central bank	80.045.107	4.940.847	1.911.437	228
Pledged financial assets	-	-	-	-
Derivative receivables	-	-	-	-
Securities	153.776.323	3.244.162	1.265.605	152.566
Loans and receivables from banks and o.f.o.	18.142.656	1.158.812	1.638.995	16.379
Loans and receivables from customers	189.296.089	17.932.872	12.204.666	-
Investments in subsidiaries	5.480.888	-	-	-
Intangible assets	510.669	38.478	29.266	-
Property, plant and equipment	6.045.330	344.748	352.977	144
Investment property	1.819.507	248.134	77.366	-
Current tax assets	12.237	7.347	-	77
Deferred tax assets	-	-	-	2.484
Non-current assets held for sale and assets of discontinued operations	130.426	102.058	138.179	-
Other assets	6.216.268	85.671	502.191	2.184
TOTAL ASSETS	461.475.500	28.103.129	18.120.682	174.062
Derivative liabilities	-	-	-	-
Deposits and other financial liabilities to banks, o.f.o. and central bank	4.989.315	4.381.679	822.104	-
Deposits and other liabilities to other customers	372.699.401	19.033.469	14.459.196	-
Provisions	2.528.051	42.251	110.585	15.459
Current tax liabilities	-	1.577	502	-
Deferred tax liabilities	147.400	20.842	8.332	-
Other liabilities	4.975.476	415.207	178.367	1.143
TOTAL LIABILITIES	385.339.643	23.895.025	15.579.086	16.602
Total capital	76.135.857	4.208.104	2.541.596	157.460
TOTAL LIABILITIES	461.475.500	28.103.129	18.120.682	174.062

NOTE: For the purposes of consolidation, positions are reclassified in the individual (statutory) financial statements of the Group members that affect the adjustment of the balance sheet total and the results in the P&L Statement presented in the statutory statements. The adjusted (reclassified) financial statements represent the initial balance sheets and items that are further subject to consolidation.

Reclassified individual P&L Statements of Group members before consolidation for the period from January 1 to December 31 2020

ITEM	KB Beograd	KB Banja Luka	KB Podgorica	KomBank INVEST
(in thousand RSD)				
Interest income	13.201.267	820.920	726.164	536
Interest expenses	-1.131.977	-201.187	-127.700	-
Net interest income	12.069.290	619.733	598.465	536
Fee and commission income	6.696.915	265.625	225.249	26.692
Fee and commission expenses	-1.821.507	-73.646	-50.190	-2.616
Net fee and commission income	4.875.408	191.978	175.059	24.076
Net gain/loss from fair value changes of financial instruments	95.629	-	-	2.417
Net gain/loss from derecognition of financial instruments that are measured at fair value	157.796	13.526	3.068	9
Net income/expenses from exchange differences and effects of agreed currency clause	4.404	809	13.213	-1
Net income/expenses from reduction of financial assets impairment that are not measured at fair value through P&L	-1.089.366	-80.183	-94.687	-
Net gain/loss from derecognition of financial instruments that are measured at amortized cost	-	-	-	-
Other operating income	211.389	10.535	5.468	-
TOTAL NET OPERATING INCOME	16.324.550	756.398	700.585	27.037
Costs of salaries, salary compensations and other personal expenses	-5.819.946	-368.040	-288.339	-15.465
Depreciation costs	-977.383	-107.505	-89.651	-49
Other income	859.417	32.384	29.789	12
Other expenses	-6.211.126	-265.220	-297.695	-10.855
GAIN /LOSS(-) BEFORE TAX	4.175.512	48.017	54.690	681

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

For adequate assessment of the Group's financial position, at the end of the business year 2020, the following financial instruments or balance sheet items are of key importance: loans and receivables from customers, securities, cash and funds with the central bank, deposits and liabilities to other customers and equity.

The Item loans and receivables from customers accounted for 43.9% of total consolidated assets and is increased by RSD 11,199.5 million compared to the end of 2019. The detailed structure of loans and investments to customers is presented in the Notes to Consolidated Financial Statements.

The Item securities accounted for 31.7% of total consolidated Group’s assets and is increased by RSD 13,959.2 million relative to 2019 and mainly consists of Parent Bank’s investments in securities of the Republic of Serbia (RSD 153,776.3 million, 97.1%) (detailed structure is stated in the Notes to Consolidated Financial Statements).

Cash and balances with central bank at the end of 2020 accounted for 17.4% of consolidated assets and are increased by RSD 10,237.7 million in comparison to the end of 2019 (detailed structure is provided in the Notes to Consolidated Financial Statements).

On the other hand, deposits and other liabilities to other customers accounted for 81.2% of consolidated liabilities and are increased by RSD 35,204.4 million. Deposits were the main source of funding in 2020, as well of both subsidiary bank and the Parent bank, alike (detailed structure is provided in the Notes to Consolidated Financial Statements).

The Item total capital of the Group accounted for 15.5% of consolidated liabilities and is reduced by RSD 1,809.2 million mainly due to the lower profit of the Parent Bank, but also other members of the Group.

The members of the Group are well capitalized, and the capital adequacy ratio of the Group is 28.82% and is significantly above the prescribed limit.

11. RISK MANAGEMENT

Risk management is a key element of business management, given that risk exposure arises from all business activities, as an integral part of banking operations, which is managed through identification, measurement, assessment, monitoring, control and mitigation, or establishing risk limits, as well as reporting in line with strategies and policies.

The Group has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, methodologies for individual risk management, appropriate organizational structure, effective and efficient process of managing all risks to which the Group is or may be exposed in its operations, adequate internal control system, appropriate information system and adequate internal capital adequacy assessment process. Also, the Recovery Plan of the Group is integrated in the risk management system, as a mechanism for early identification of a situation of severe financial disturbance in which the Group can take measures, i.e., apply defined recovery options in order to prevent entering the early intervention phase in which the regulator actively participates, or to improve the already deteriorating financial position.

With the Risk Management Strategy and the Capital Management Strategy and Plan, the Group has set the following goals within the risk management system: minimizing negative effects on financial result and capital while complying with the defined frameworks of acceptable risk level, maintaining the required level of capital adequacy, development of Group's activities in line with business strategies of individual members and opportunities and market development in order to create competitive advantages, diversification of risks to which the Group is exposed, maintaining the share of NPLs in total loans to an acceptable level for the Group, maintaining the liquidity coverage ratio above regulatory and internal limits.

The Group permanently monitors all announcements and changes in the regulatory framework, analyzes the impact on the risk level and takes measures for timely harmonization of its operations with new regulations, and during 2020 especially in the part of regulations related to preserving the stability of financial system, as well as supporting the economy in order to mitigate the consequences of the COVID-19 pandemic by regulators in the markets in which the banking Group operates. During 2020, the National Bank of Serbia, the Central Bank of Montenegro and the Banking Agency of the Republic of Srpska adopted decisions prescribing delays in repayment of debtors' liabilities in conditions of potential health risks caused by emergency health situation in the country of the parent Bank and in the countries of Group members and adjusted the existing regulations in the area of risk management by banks, which the Group timely complied with in its operations. Through a clearly defined process of introduction of new and considerably changed products, services and activities in relation to processes and systems the Group analyzes their impact on future exposure to risks in order to optimize its income and expenses for the assessed risk, as well as to minimize all potentially negative effects on Group's financial result.

A detailed presentation of Group's risk management goals and policies is provided in the Notes to Consolidated Financial Statements.

Hedging Policy from Exposure to Credit Risk

In order to hedge from exposure to credit risk, the Group applies the credit risk mitigation techniques by obtaining the acceptable security instruments (collaterals), as secondary sources of loan collection. The Group strives to do business with clients of good creditworthiness, assessing it at the time of application and by regular monitoring of debtors, loans and collateral, in order to timely undertake appropriate activities in the collection process.

The types of collaterals for receivables depend on the assessment of the credit risk of the debtor and are determined in each specific case individually, and their acquisition is done after the conclusion of the contract and before the realization of the loan.

By its internal by-laws the Group has regulated the valuation of credit protection instruments and the management of those instruments.

The Group pays special attention to marketability and adequate valuation of collateral in connection with which it engages certified appraisers when assessing the value of collateral, in order to minimize the potential risk of unrealistic valuation, and real estate, goods, equipment and other movables that are the subject of pledge must be insured with an insurance company acceptable to the Group, with insurance policies assigned in favor of a specific member of the Group.

In order to protect against changes in the market values of collateral, the estimated value is adjusted for defined impairment percentages depending on the type of collateral and the location of the real estate, which are regularly reviewed and revised.

The Group pays special attention to monitoring collateral and undertakes activities to provide new valuations, but also to obtain additional collateral, primarily for clients with identified business problems, but also for clients whose collateral exposure coverage is reduced due to falling collateral values.

For the purpose of adequate risk management, the Group implements activities of credit risk analysis when approving loans and it also establishes the system for monitoring, preventing and managing the risky loans, including the proper identification of potentially risky clients (Watch List), additionally, it mitigates the credit risk in case of clients with the indicated status, and also undertakes measures and actions in order to protect the interests of the Group and prevents the negative effects on its financial result and capital.

During 2020, the Group continued to improve its risk management system. It revised the Risk Management Strategy (it reduced the maximum acceptable level of NPLs), supplemented and amended procedures and methodologies in order to comply with changes in local and international regulations and improved business practices, as well as changed conditions caused by the COVID-19 virus pandemic, which are completely different from the previous business circumstances faced by the real and financial sectors. In accordance with the amended regulatory requirements, credit risk management has been improved. The Group continues to improve the risk management system that relies on the postulates of the independence of the risk management function from risk taking centers, the timeliness of information flows that support the decision-making process, as well as the transparency and correctness of the information provided. Since the Bank became the member of the NLB Group at the end of the year, in the following period additional compliance of risk management system will be performed with the NLB Group's risk management system.

In 2020, in the conditions caused by the COVID-19 pandemic, the Group successfully continued its activities to improve the quality of the loan portfolio by reducing the occurrence of new bad loans and solving problems of clients already identified as problematic, and carried out activities to reduce non-performing loans (collection and write-off by transferring fully impaired receivables to off-balance sheet records). In accordance with the Decision of the National Bank of Serbia on Accounting Write-Off of Bank Balance Sheet Assets (implementation as of 30.09.2017), and pursuant to regulation of the Central bank of Montenegro and the Banking Agency of the Republic of Srpska, in the course of 2020, the parent Bank and Komercijalna banka Banja Luka carried out a transfer of 100% impaired loans from balance sheet to off-balance sheet records, which, in addition to collection of risky loans, led to reduction of NPL ratio. During 2020, in Komercijalna banka Podgorica there was no transfer of 100% provisioned loans to off-balance sheet records.

The Group applies IFRS 9 standard and in accordance with the stated standard calculates the impairment of balance sheet assets and probable loss on off-balance sheet items. The concept of "expected losses" is applied by including the impact of expected movements of macroeconomic factors on future trends in the probability of default on the basis of statistically proven interdependencies, with the Group introducing the possibility of using several different scenarios in 2020 - if necessary, including also the expertly assessed scenarios in conditions that differ significantly from the Group's historical experience. The portfolio is differentiated into three levels that monitor client status (level 1 - PL clients without identified credit risk deterioration, level 2 - PL clients with identified credit risk deterioration - measured by a set of defined criteria, level 3 - NPL clients). In the context of the COVID-19 virus pandemic and the need to include additional expert assessments in the expected movement of the default rate, the Group assumed that the effects of this pandemic will result in a combination of V and U curves, which characterize the greatest effects during 2021 (further deepening of the crisis and manifestation of the effects of the recession), with the expected slight recovery in 2022, which would continue in 2023. Also, in compliance with IFRS 9 standard, the Group also calculates the impairment for exposures to countries and central banks of the Banking Group's members, and permanent stakes (other than permanent stakes in subsidiaries) are measured at fair value.

During 2020, all members of the Group experienced a real growth of impairment provisions (P&L Statement) which was caused by the growth of existing individually impaired loans of the parent Bank's corporate clients as a result of assessing the increase in credit risk due to deteriorating financial condition, followed by an increase with corporate and retail PL clients in case of all Group members, due to transfer of individual clients from level 1 to level 2 based on the identified deterioration of credit risk due to significant impact of COVID-19 pandemic to certain economic activities, with a slight increase of probability of default as a result of changes in expected trends of macroeconomic factors. As a result of all the above stated, the Group made an additional adjustment of impairment level for credit risks, which is reflected in allocation of additional buffer against the impairment or the impact of deteriorating of macroeconomic expectations. The reduction of impairment provisions in balance sheet in the Group was largely impacted by transfer of 100% impaired loans from balance sheet to off-balance sheet records with the parent Bank and with Komercijalna banka Banja Luka.

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

- Credit and related risks,
- Liquidity risk.
- Market risk.
- Interest rate risk in the banking book.
- Operational risk.
- Investment risk.
- Exposure risk.
- Country risk as well as any other risks that may arise in the ordinary course of the Group's operations.

Exposure to credit risk

Credit risk is the possibility of occurrence of negative effects on the financial result and capital of the Group, due to non-fulfillment of obligations of debtors to the members of the Group. Credit risk is conditioned by the creditworthiness of the debtor, its regularity in fulfilling obligations to the members of the Group, as well as the quality of the security instrument, and/or collateral.

Acceptable level of exposure to credit risk of the Group is in compliance with the defined Risk Management Strategy and depends on the Group’s portfolio structure, on the basis of which it is possible to limit the negative effects on the financial result and capital of the Group, while minimizing capital requirements for credit risk, settlement and delivery risk based on free deliveries, counterparty risk, risk of impairment of purchased receivables and in order to maintain capital adequacy at the acceptable level. Banks, members of the Banking Group, manage credit risk at the level of the client, the group of related parties and the entire loan portfolio. Also, they approve loans to clients (legal entities and private individuals) for which they assess to be creditworthy by performing analysis, i.e., quantitative and/or qualitative measurement and the assessment of credit risk and financial position of the debtor. The process of measuring credit risk is based on measuring the level of risk of an individual loan based on the internal rating system, as well as the application of regulations. By monitoring and controlling the portfolio as a whole and by individual segments, the Group makes comparisons with previous periods, identifies the trends and causes of changes in the level of credit risk. It also monitors the asset quality indicators (NPL movements, the level of NPL coverage by impairment provisions, etc.), as well as exposure to regulatory and internally defined limits. The process of monitoring the quality of loans enables the Group members to assess the potential losses as a result of the risk to which they are exposed and to take appropriate corrective measures.

Exposure to liquidity risk

Liquidity risk is the possibility of occurrence of negative effects on the financial result and capital of the Group due to the inability of Group members to meet their matured obligations due to withdrawal of existing sources of funding, as well as the inability to obtain new sources of funding - risk of liquidity of sources of financing as well as aggravated conversion of assets into liquid assets due to market disturbances - market liquidity risk. Liquidity risk is manifested through the Group's difficulties in settling due liabilities in the event of insufficient liquidity reserves and the inability to cover unexpected outflows of other liabilities.

In their operations, the parent bank, as well as the Group members comply with the basic principles of liquidity, by achieving a sufficient level of liquid assets to cover liabilities incurred in the short term, and/or they comply with the principle of solvency by forming an optimal structure of own and borrowed sources of funds and forming a sufficient level of liquidity reserves that do not jeopardize the planned return on equity.

Liquidity risk is also manifested in the inability of the Group to transform certain parts of assets into liquid assets in the short term. The Group performs an analysis of funding risk and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities, i.e., obligations and it is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. Funding liquidity risk actually represents the risk that the Group will not be able to meet its obligations due to the withdrawal of unstable sources of funds, i.e., the inability to obtain new funding sources. On the other hand, liquidity risk is also manifested through the deficit of liquidity reserves and aggravated or impossible acquisition of liquid assets at acceptable market prices. During 2020 the Group complied with regulatory and internally defined limits in the conditions of somewhat lower inflows due to the application of the moratorium on loan repayment, all liquidity risk ratios were higher in relation to the defined limits.

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

Exposure to market risks

Market risk represents the possibility of occurrence of negative effects on the financial result and capital of the Group due to changes in market variables and includes foreign exchange risk for all business activities performed and the price risk of trading book positions.

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

Exposure to interest rate risk

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

Interest rate risk management aims to maintain the acceptable level of exposure to interest rate risk from the aspect of impact on the financial result and economic value of equity, by conducting an adequate policy of maturity matching of repricing period and adjustment of sources with loans according to the level of interest rate and maturity.

During 2020 interest rate risk ratios ranged within the internally defined limits.

Exposure to operational risks

Operational risk is the risk of possible occurrence of negative 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 Group banks, as well as due to unforeseen external events. Operational risk also includes legal risk, which is the risk of adverse effects on the Group's financial result and equity based on court or out-of-court 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 member banks monitored the exposure to operational risk in the conditions of COVID-19 virus pandemic and undertook appropriate measures for risk mitigation. The group takes measures to mitigate the operational risks and to 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 practice 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 part of timely provisioning based on claims against the Group members banks, and in accordance with the assessment of future expected loss on that basis.

Investment risk

The Group’s investment risk is a risk of investment in other legal entities and in fixed assets and investment property. In line with regulations, the level of permanent investments is monitored and the Group’s Bodies and Committees are notified thereof. In this way, it is ensured that the investments of Group members in one entity that is outside the financial sector do not exceed 10% of the Group's capital, and that the investments of Group members in non-financial sector and fixed assets and investment property do not exceed 60% of the Group's capital.

Large exposure

Large exposure of the Group to a single party or a group of related parties, including the parties related to the Group, is the exposure which equals at least 10% of Group’s capital. During 2020, the parent Bank and banks, members of the Banking Group were complied with the regulatory and internally defined exposure limits.

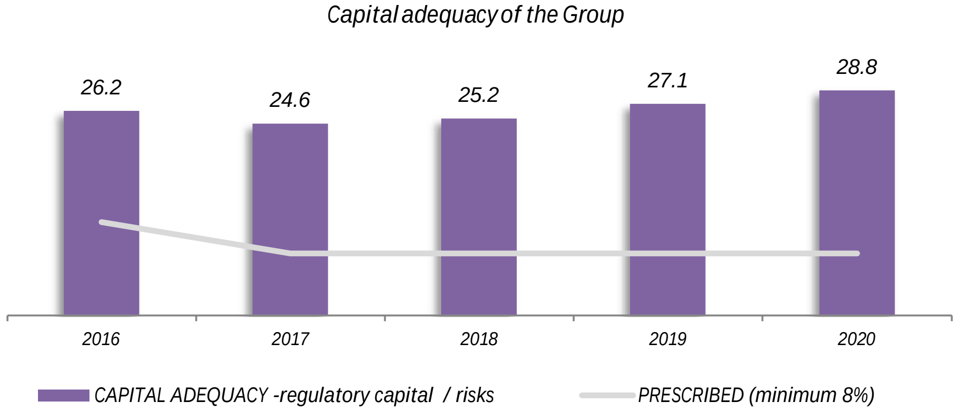
Exposure to country risk

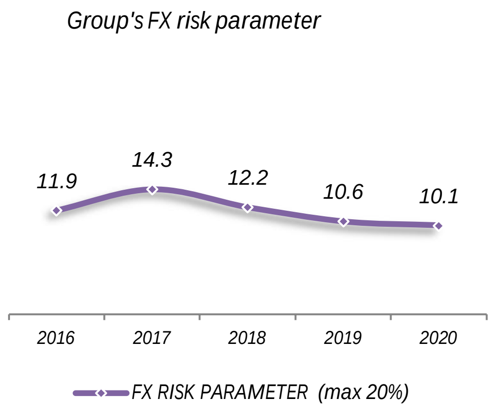
Country risk is the risk related to the country of origin of the persons to whom the Group members are exposed, i.e., the risk of possible occurrence of negative effects on the financial result and capital of the Group due to the inability of Group members to collect receivables from debtors on account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

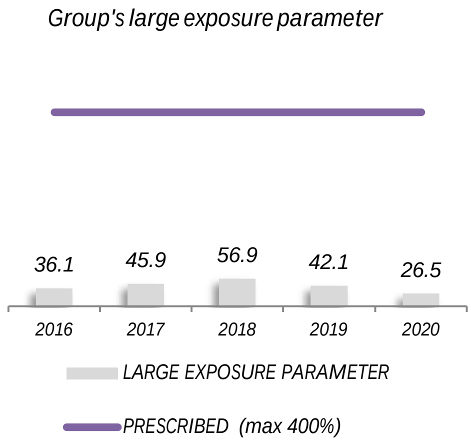
Regulatory requirements for KB Group

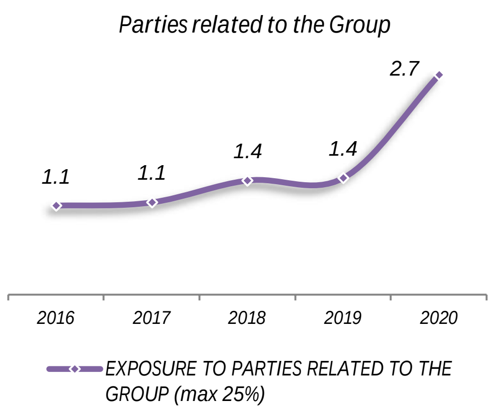
According to the Law on Bank for a banking group on a consolidated basis, the following are determined:

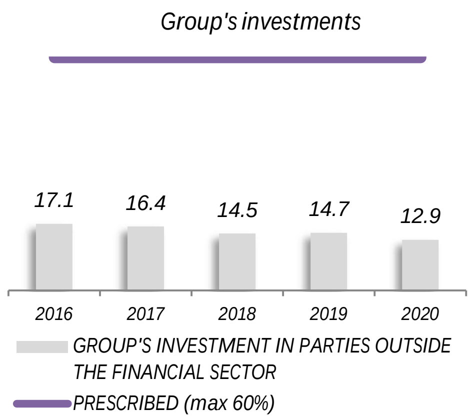
- Capital adequacy ratio,
- Large exposure,
- Investment in other legal entities and in fixed assets and investment property,
- Open net FX position.











12. CORPORATE SOCIAL RESPONSIBILITY OF THE GROUP

KOMERCIJALNA BANKA A.D. BEOGRAD

A special contribution to preserving and increasing the value of the corporate image was made by activities in the field of corporate social responsibility (CSR), which the Bank carefully selected and supported and in which it actively cooperated with its partners. The bank welcomed all babies born on January 1, with a gift of savings in the amount of RSD 20,000. The campaign for equipping hospitals and maternity wards "Together for babies" continued, within which an incubator was donated to the General Hospital in Vršac at the beginning of the year. Regular activities in the field of social responsibility were interrupted by the emergency situation in the country caused by the corona virus pandemic. The Bank responded to this challenge with procedures that enabled business even in this situation, as well as by directing funds to extraordinary purchases and donations of medical materials and equipment for hospitals. At the beginning of the pandemic, RSD 8 million were donated to the Republic Health Insurance Fund for the purchase of respirators, and in cooperation with the B92 Fund, an incubator was urgently donated to the maternity ward of the hospital Dragiša Mišović, which cares for pregnant women and newborns diagnosed with COVID-19. In the same donation, 100 non-invasive masks were donated to this hospital, which replace the intubation of patients when using respirators and significantly facilitate the treatment process for patients. At the end of the year, the procurement of several thousand masks for the needs of the Infectious Diseases Clinic in Belgrade was financed, and the procurement of a 4D ultrasound device for the GAK Narodni Front hospital was also carried out.

For its engagement and assistance to medical institutions in the fight against the Covid-19 virus epidemic, Komercijalna banka received an award given by the Serbian Philanthropic Forum on the occasion of the National Day of Giving.

All implemented activities of Komercijalna banka ad Beograd in this area are accompanied by appropriate PR support, without which modern market operations cannot be imagined, and which has proved to be especially necessary in the extraordinary circumstances in which we found ourselves this year. The bank communicated with its “stakeholders” in a well-formed, clear and targeted manner, in order to timely inform them about all the changes that accompanied the business, as well as the security procedures that it implemented. This achieved mutual understanding and retained trust in the Bank, which contributes to the improvement of the acquired image and reputation.

KOMERCIJALNA BANKA A.D. BANJA LUKA

As a socially responsible company, Komercijalna banka a.d. Banja Luka has been supported, year after year, a number of projects in the field of economy, sports, education, as well as various activities aimed at supporting the younger generations and the wider community as a whole.

The bank marked the beginning of corporate social responsibility in 2020 with the traditional gift to a first-born baby in Banja Luka, which was further reflected by donating deposits to Cvrčak (Cricket) free savings to the best students in two primary schools in Banja Luka on the occasion of the school's patron saint day Saint Sava. Also, as part of the opening of the new branch of Komercijalna banka in Drvar, a donation was provided to help the kindergarten "Mother Courage" in Drvar. Traditionally, on the occasion of marking the National Day of the Republic of Serbia, Komercijalna banka Banja Luka awarded the best literary works of students from the Republic of Srpska.

Komercijalna banka a.d. Banja Luka pays great attention to cooperation with educational institutions and activities aimed to support the development and training of young people. Proof of this is the establishment of cooperation with the Faculty of Economics in Sarajevo, which is reflected in the exchange of knowledge and experiences and joint participation in socially useful projects, such as guest lectures, internships, creating research papers and providing internships and employment in the Bank for graduates.

The Bank is also engaged in providing support to the health care system and improving the treatment process in health care institutions. In this regard, funds were donated to the University Clinical Center of Republic of Srpska for the purchase of uniforms and work shoes to the Clinic of Intensive Care Medicine for non-surgical branches. In addition, the Bank, through the Association of Banks of Bosnia and Herzegovina, assisted in the procurement of respirators and protective equipment for the needs of clinical centers in Banja Luka, Sarajevo and Mostar.

The corona virus pandemic marked the year 2020, which also affected the Bank's operations in the sense that numerous events and fairs at which Komercijalna banka traditionally gave its contribution were disabled and postponed. During the pandemic, the Bank, in accordance with regulations and recommendations, provided its clients with facilities in loan repayment, as well as lower tariffs for performing internal payment transactions via electronic and mobile banking.

KOMERCIJALNA BANKA A.D. PODGORICA

Corporate social responsibility and the desire to support projects important to the wider community, is an indispensable activity of Komercijalna banka AD Podgorica. In 2020, marked by corona virus pandemic and accompanying global economic and social problems, the Bank sought to show solidarity and responsibility and find a way to support the wider community in this common struggle. Families that needed social support and help in the cities where the Bank has branches, but also in other municipalities, were given financial aid, in order to more easily overcome the difficult situation caused by the spread of the COVID-19 virus. At the same time, the Bank joined the campaign organized by the Association of Banks of Montenegro to assist in the procurement of respirators for the needs of the Clinical Center of Montenegro. The total value of donations related to the COVID-19 virus pandemic was EUR 25.000.

In 2020, Komercijalna banka AD Podgorica, in cooperation with the non-governmental organization "Club 30", donated office furniture to the capital of Cetinje, in order to improve working conditions for students and employees in educational institutions in the Municipality of Cetinje. Office furniture was handed over to elementary schools "Njegoš" and "Lovćenski partizanski odred" from Cetinje, elementary school "Šunjo Pešikan" from Trešnjevo, elementary school "Boro Vukmirović" from Rijeka Crnojević, elementary music school "Savo Popović", high school Cetinje, high school of fine arts "Petar Lubarda", as well as the vocational high school , which received an interactive whiteboard.

In 2020, Komercijalna banka AD Podgorica also supported the campaign "First step into a secure future", which has been organized for many years by the Central Bank of Montenegro on the occasion of World Savings Day, and within which we give babies their first savings. At the request of the parents, the Bank donated EUR 200 to each baby born in the savings week.

13. CORPORATE GOVERNANCE

The rules of corporate governance are based on the relevant legal regulations (primarily the Law on Banks and the Company Law).

Competencies and authorizations of all bodies of Komercijalna banka AD Beograd (General Meeting of Shareholders, Board of Directors, Executive Board, Audit Committee, Assets and Liabilities Management Committee, Credit Committee), are based on relevant legal regulations and are defined by the internal by-laws (Memorandum of Association, Bank’s Articles of Association, Rules of Procedure of the Bank’s bodies and other internal by-laws).

In its operations, Komercijalna banka AD Beograd, the Parent bank, in accordance with the Decision of the Bank’s Executive Board no. 8373 of 9.04.2013, has applied the Code of Corporate Governance of the Serbian Chamber of Commerce („Official Gazette RS“, no. 99/2012), which was adopted by the Assembly of the Serbian Chamber of Commerce. The Code of Corporate Governance established the principles of corporate practice in compliance with which the holders of the Bank's corporate governance act and adhere in their operations. The aim of the Code is to introduce good business practices in the field of corporate governance, equal influence of all stakeholders, existing and potential shareholders, employees, clients, bodies of the Bank, the state, etc. The ultimate goal is to ensure the long-term and sustainable development of the Bank. The text of the Corporate Governance Code is published on the website of Komercijalna banka AD Beograd (www.kombank.com/sr/o-nama/korporativno-upravljanje).

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

In accordance with the Law on Companies ("Official Gazette of Montenegro" No. 17/2007, 80/2008, 36/2011), Komercijalna banka AD Podgorica acquired the status of a legal entity on the day of registration as a joint stock company. As a joint stock company, Komercijalna banka AD Podgorica regulates the mutual relations among all stakeholders in accordance with its Memorandum of Association and Articles of Association. The company's bodies are the Bank's General Meeting of Shareholders, Management Board, Audit Committee and executive directors. The roles of Bank's bodies are defined by the Articles of Association and other Bank's by-laws. In terms of management, the Bank applies the best international practices of corporate governance.

The corporate governance is established in a following manner:

- To comply with the legal framework of Montenegro and good business practice in all segments of corporate governance;
- In this context, to set principles that are flexible and give space to the Management Board to manage and govern the Bank in the best possible way and to achieve the set goals;
- That all mutual relations of interested parties in the functioning of the Bank are clearly differentiated, that there are no overlaps or gaps in responsibilities and competencies, and that all stakeholders have a balance of responsibilities and obligations, and/or rights and competencies;
- To set the relations between all stakeholders in such a way that the common interest prevails with all of them, i.e., the interest of the Bank in relation to their individual interests;
- To fully, efficiently and effectively perform all functions of management and governance of the bank, i.e., to manage the bank in a way that leads to the achievement of set goals and tasks.

In applying corporate governance rules, the above by-laws have been implemented, as well as other internal by-laws of the Bank and there are no deviations in their application.

Kombank Invest a.d. Beograd is organized in the form of a one-member joint stock company that is not public with a bicameral management system. In order to ensure impartiality, transparency and accountability in corporate behavior, the Company applies the Rules of Conduct and Professional Ethics that are harmonized with the parent company, the Policy of Managing Conflicts of Interest and Personal Transactions, and other.

The competencies and authorities of all bodies of the Group members are based on the relevant legal regulations and defined in internal by-laws. The rules of corporate governance are implemented through internal by-laws and there are no deviations in their application.

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

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

Miroslav Perić, PhD
Member of the Executive Board

Vlastimir Vuković
President of the Executive Board

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