QUARTERLY REPORT OF KOMERCIJALNA BANKA AD BEOGRAD FOR Q1 2021

Belgrade, May 2021

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KOMERCIJALNA BANKA AD BEOGRAD

NLB GRUPA

QUARTERLY REPORT OF KOMERCIJALNA BANKA AD BEOGRAD FOR THE FIRST QUARTER OF YEAR 2021

Belgrade, May 2021

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1. OVERVIEW OF KEY PERFORMANCE RATIOS IN THE PERIOD FROM 01.01 TO 31.03.2021

POSITION	31.03.2021.	28.02.2021.	31.01.2021.	2020.	2019.
INCOME STATEMENT (RSD 000)					
Profit/loss before tax	182.828	1.133.362	499.061	4.192.846	8.268.685
Profit/loss after tax	196.438	1.133.362	499.061	2.928.761	8.955.759
Net interest income	2.951.973	1.930.549	994.906	12.069.290	12.605.384
Net fee income	1.206.108	777.917	381.926	4.875.408	5.328.996
Operating costs	2.702.617	1.754.118	877.213	11.510.471	11.064.609
Net income/expenses from impairment of financial assets which are not measured at fair value through profit or loss	-1.252.837	54.354	-33.493	-1.072.032	2.425.931

POSITION	31.03.2021.	28.02.2021.	31.01.2021.	2020.	2019.
BALANCE SHEET (000 RSD)					
Balance Sheet assets	465.060.275	461.521.427	458.198.234	459.427.723	432.380.443
Off-balance sheet transactions	475.144.894	482.354.219	488.864.112	489.305.071	460.440.031
RETAIL BANKING					
Loans [1]	109.291.653	108.067.509	108.006.501	108.585.889	99.057.214
Deposits [2]	314.660.775	311.338.464	308.397.649	309.268.562	280.484.488
CORPORATE BANKING					
Loans	78.327.459	80.317.061	81.283.322	78.833.152	81.504.403
Deposits	50.650.072	47.904.778	47.766.452	47.765.467	47.879.400

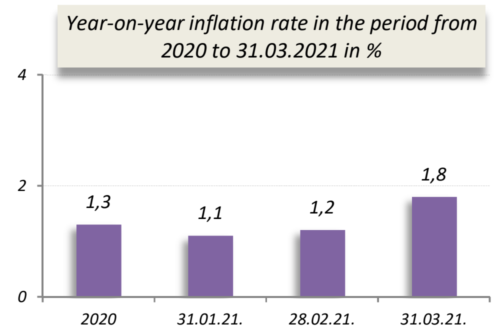
RATIOS	31.03.2021.	28.02.2021.	31.01.2021.	2020.	2019.
LOAN TO DEPOSIT RATIO					
Gross loans/deposits	54,79%	55,45%	54,73%	53,37%	57,7%
Net loans/deposits	52,09%	53,09%	52,34%	51,04%	54,9%
CAPITAL (000 RSD)	74.260.420	75.352.149	74.375.519	74.086.863	75.852.173
Capital adequacy	29,96%	30,59%	31,44%	32,50%	30,83%
Number of employees	2.661	2.668	2.675	2.669	2.744
PROFITABILITY RATIOS					
ROA	0,16%	1,48%	1,31%	0,93%	2,00%
ROE – total capital	0,98%	9,08%	8,07%	5,59%	11,71%
Net interest margin on total	2,56%	2,52%	2,60%	2,67%	3,04%
Cost / income ratio	65,00%	64,48%	63,37%	67,93%	61,70%
Operating cash flows	4.867.892	3.894.902	2.612.488	7.119.498	9.859.741
Asset per employee (000 EUR)	1.486	1.471	1.457	1.464	1.340
Asset per employee (000 RSD)	174.769	172.984	171.289	172.135	157.573

1 Position loans (retail and corporate) does not include other loans and receivables
2 Position deposits does not include other liabilities and funds received through credit lines

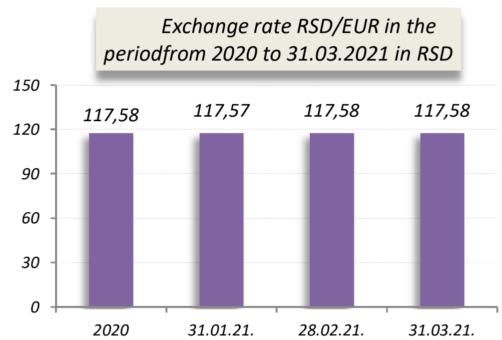
2. MACRO-ECONOMIC OPERATING CONDITIONS COVERING THE PERIOD FROM 01.01 TO 31.03.2021 [3]

At the end of the first quarter of 2021, the year-on-year inflation rate was 1.8% (y.o.y.), while on a monthly basis in March, consumer prices rose by 0.5% on average. The monthly inflation rate was driven by rising prices of petroleum products and vegetables as well as rising prices of fruits and meat.

According to the March projection of the National Bank of Serbia, inflation should be low and stable in the coming period, in the lower half of the target range (3±1,5%).

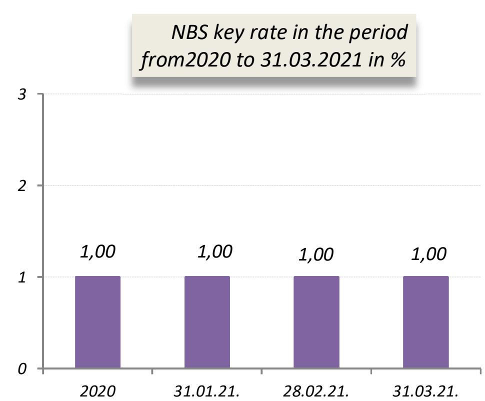


In the first quarter of the current year, the dinar did not oscillate against the euro. The dinar exchange rate was around 117.5 dinars for one euro. Since the beginning of the year, the National Bank of Serbia has intervened in the interbank foreign exchange market (MDT) with net sales of EUR 50.0 million in order to maintain relative stability. Gross foreign exchange reserves at the end of March this year amounted to EUR 14,276 million.



On March 11, 2021, the National Bank of Serbia decided to keep the key interest rate at the level of 1.00%.

The decision was made bearing in mind that the adopted stimulating measures of monetary and fiscal policy continue bear effect. Also, a third, new package of fiscal stimulating measures has been announced. The new monetary and fiscal policy measures will further improve the conditions for financing of both corporate and retail sectors in the conditions of the still present pandemic of the COVID-19 virus. The priority of monetary policy remains the preservation of financial and price stability, support for faster economic and employment growth, export growth and improvement of the investment environment.

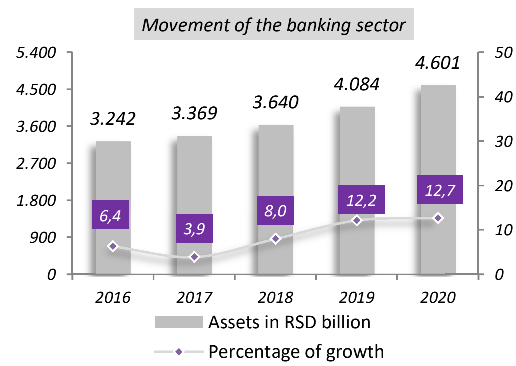


[3] NBS, Macroeconomic Trends in Serbia, April 2020

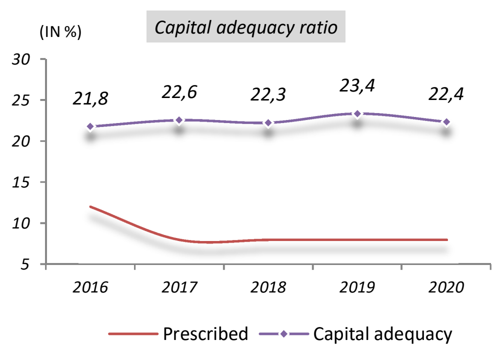
3. BANKING SECTOR AND FINANCIAL POSITION OF THE BANK [4]

At the end of December 2020, the banking sector of the Republic of Serbia consists of a total of 26 banks, which is the same number as at the beginning of the year. At the end of 2020, the banking sector employed 22,823 workers, 264 less than at the end of 2019.

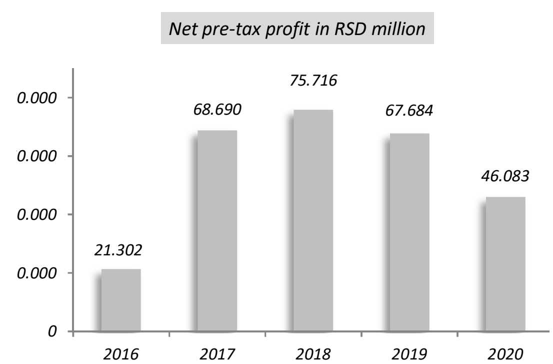
The total assets of the sector reached the amount of 4,601 billion dinars and compared to the end of the previous year, it increased by 517 billion dinars or 12.7%. At the end of 2020, the Bank participates in the assets of the sector with 10.0%. The total capital of the banking sector at the end of December 2020 amounted to 717 billion dinars and compared to the beginning of the year it increased by 11 billion dinars or 1.6%.



Average value of capital adequacy ratio of the banking sector, as at 31/12/2020 is 22.4%. The achieved value of 22.4% in relation to the new prescribed minimum indicator of 8.0%, shows that the banking sector is adequately capitalized. In addition to adequate capitalization, the banking sector is characterized by a further decline in the share of non-performing loans in total loans. On 31/12/2020 gross NPL loans participate in total loans with 3.7% (On December 31, 2019, the share was 4.1%).



During 2020, the banking sector recorded a decline in profitability compared to 2019.
During 2020, a profit before taxes in the amount of 46.1 billion dinars was generated, while in the previous year, a profit of 67.7 billion dinars was generated.
At the level of the banking sector, the rate of return on capital (ROE), at the end of December 2020, was 6.5%, while the rate of return on assets (ROA) was 1.1%.



[4] NBS, Macroeconomic Trends in Serbia, April 2020

4. ORGANIZATIONAL STRUCTURE AND BANK BODIES

The Board of Directors of the Bank is formed in accordance with the Law on Banks, the Bank's Articles of Association and consists of at least 5 (five) members, including the Chairman, of which at least one third of the members must be persons independent of the Bank. Members of the Bank's Board of Directors are appointed by the General Meeting of Shareholders of the Bank to a period of four years. The proposal of the decision on the appointment of the chairman and members of the Board of Directors of the Bank is determined by the Bank's Board of Directors of the Bank, at the proposal of the shareholders.

The competencies of the Bank's Board of Directors are defined in Article 73 of the Law on Banks and Article 27 of the Bank's Articles of Association. The members of the Bank's Board of Directors as of March 31, 2021 are:

FIRST AND LAST NAME	SHAREHOLDER /INDEPENDENT OF THE BANK	POSITION
Archibald Kremser	NLB dd Slovenia	Chairman
Blaž Brodnjak	NLB dd Slovenia	Member
Uršula Kovačič Košak	NLB dd Slovenia	Member
Igor Zalar	NLB dd Slovenia	Member
Marko Jerič	NLB dd Slovenia	Member
Vesna Vodopivec	NLB dd Slovenija	Member
Nenad Filipović	Member independent of the Bank	Member
Guy Richard Steel Stevens	Member independent of the Bank	Member
Dragan Đuričin, PhD	Member independent of the Bank	Member

A quorum for the work and decision-making of the Board of Directors of the Bank exists if the meeting is attended by a majority of the total number of members of the Board of Directors of the Bank. The Chairman and each member have the right to one vote.

The Executive Board consists of at least three members, one of whom is the President of the Executive Board, and the second deputy President of the Executive Board. The term of office of the members of the Executive Board of the Bank, including the President and Deputy President, is four years as of the date of appointment. The competencies of the Executive Board are defined in Article 76 of the Law on Banks and Article 31 of the Bank's Articles of Association.The members of the Executive Board of the Bank as of March 31st 2021 are:

FIRST AND LAST NAME	POSITION
Vlastimir Vuković	President
Dejan Janjatović	Vice President
Dragiša Stanojević	Member
Pavao Marjanović	Member

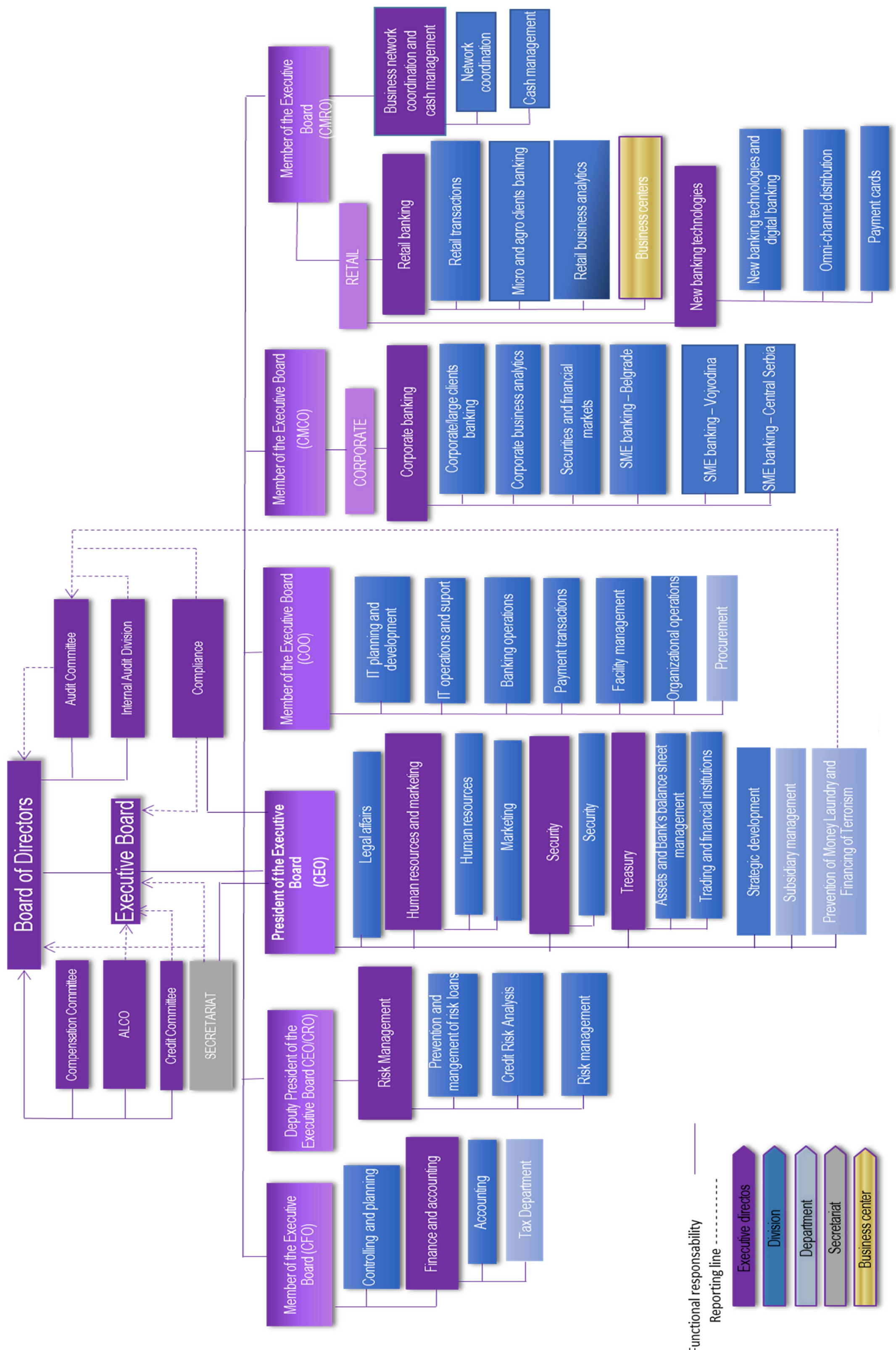
A quorum for the work and decision-making of the Executive Board exists if the session is attended by a majority of the total number of members of the Executive Board. The Executive Board makes decisions by a majority vote of the total number of members.

The Audit Committee of the Bank comprises of at least three members, at least two are members of KB's Board of Directors having appropriate experience in the field of finances. One member of the Audit Committee is a person independent of the Bank. The members of the Committee are elected to a four-year term.

Duties of the Audit Committee are defined in Article 80 of the Law on Banks and Article 34 of KB's Articles of Association. As at March 31st 2021 the members of the Audit Committee are:

FIRST AND LAST NAME	POSITION
Dragan Đuričin, PhD	Chairman
Marko Jerič	Member
Igor Zalar	Member
Polona Kurtevski	Member
Barbara Deželak	Member

A quorum for the work and decision-making of the Audit Committee exists if the majority of the total number of members of the Audit Committee is present at the meeting.



Note: Organizational chart of the Bank on March 31, 2021

5. FINANCIAL POSITION AND PERFORMANCE RESULTS OF THE BANK FROM 01.01 TO 31.03.2021

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On 31.03.2021, the Bank's balance sheet assets amounted to 465,060.3 million dinars and increased by 5,632.6 million dinars compared to the end of the previous year.

In the first quarter of 2021, off-balance sheet assets decreased by 2.9% or 14,160.2 million dinars and at the end of March this year amounted to 475,144.9 million dinars. The decrease was caused by a decrease in the position of other off-balance sheet assets.

Corporate and retail deposits at the end of March 2021 amounted to 365,310.8 million and compared to the beginning of the year increased by 8,276.8 million dinars or 2.3%. On the other hand, corporate and retail loans at the end of March 2021 amounted to 187,619.1 million dinars and compared to the beginning of the year they increased by 200.1 million dinars or 0.1%.

These changes also include the effect of dinar appreciation against the Swiss franc (1.9%) and the depreciation against the US dollar (4.7%). In relation to the euro, the dinar remained unchanged from the beginning of the year until the end of the first quarter of 2021.

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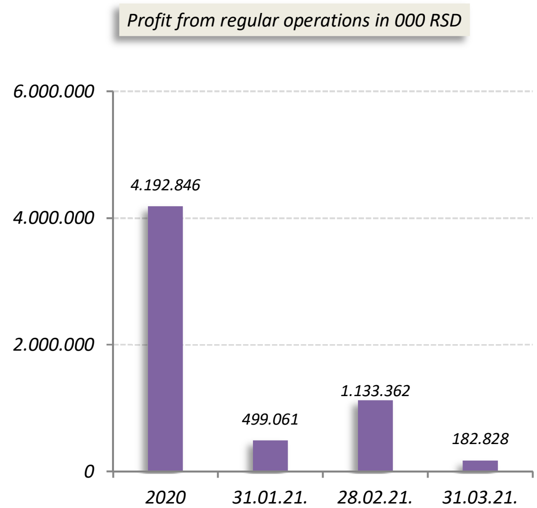
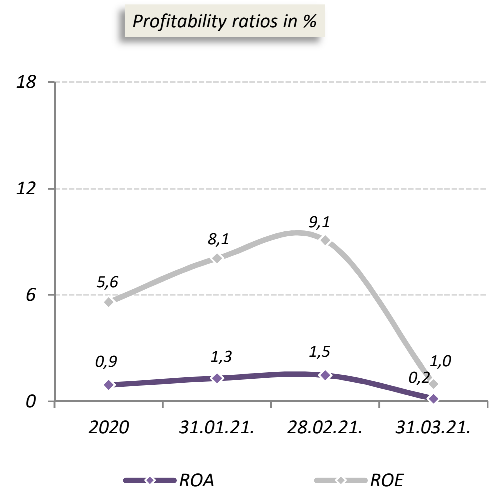




In the first three months of 2021, the bank generated profit from regular operations. Generated profit of the Bank in the period from 01.01 to 31.03.2021 amounts to 182.8 million dinars, which compared to the same period last year, represents a decrease of 2,085.3 million dinars. In the first quarter of 2021, the achieved profit made a return on total capital of 1.0% to the Bank, or a return on balance sheet assets of 0.2%.

Net interest income at the end of the first quarter of 2021 amounted to 2,952.0 million dinars, which is 2.9% less compared to the same period last year. Net income from fees amounts to RSD 1,206.1 million and is EUR 6.9 million higher than in the same period last year.

In three months of 2021, the Bank recorded net expenses based on indirect write-offs of loans and provisions in the amount of 1,252.8 million dinars, unlike the same period last year. In the first quarter of this year, operating expenses amounted to 2,702.6 million dinars, which is 154.6 million dinars or 6.1% higher than the amount of the same period last year. The movement of profit in the first quarter of 2021, compared to the same period last year, was also affected by the decrease in the amount of other income that was realized in the first quarter of this year in the amount of 291.6 million dinars, while in the same period last year that amount came to 843.4 million dinars. At the same time, there was an increase in other expenses from 255.3 million dinars in the first quarter of the previous year to 322.9 million dinars in the first quarter of 2021.

Due to the growth of business volume as well as a slight decrease in the number of employees in the first three months of 2021, assets per employee in the Bank increased from 172.1 million dinars (December 31, 2020), to 174.8 million dinars at the end of the first quarter of 2021 .

At the end of the first quarter of the current year, the cost income ratio (CIR) is 65.0%, while at the end of 2020 it was 67.9%.

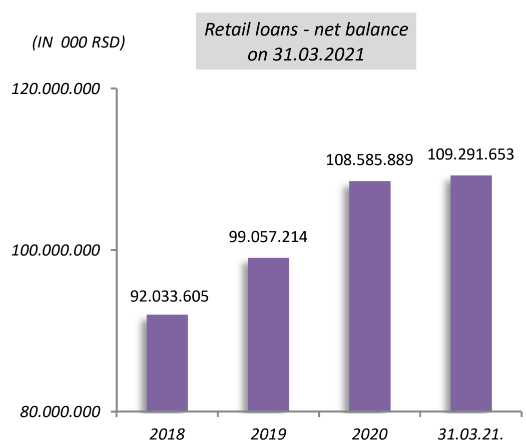
5.1. Retail banking

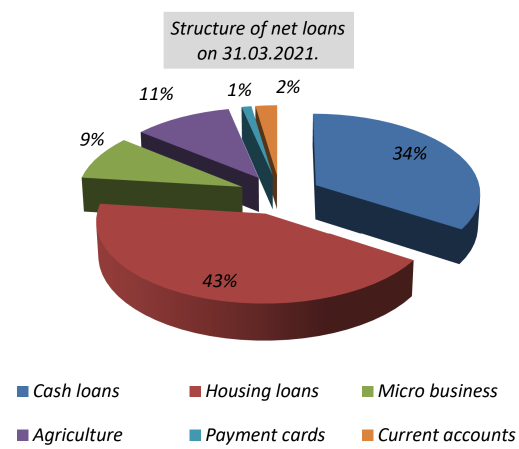
In the first quarter, retail banking continued its growth trend, and achieved, according to most indicators, significant results.
The most important goal of the business was the growth of lending in all segments and the creation of a basis for even greater growth after the first quarter.

Loans

In all segments (individual retail clients, agriculture and micro business), the Bank performed a comprehensive redesign of credit products, which significantly raised the attractiveness and competitiveness of its offer. In addition to product changes, technological solutions have been innovated, which has led to faster and easier loan approval. In the segment of natural persons, the possibility of remote signing of contractual documentation with two-factor authentication (mail address/SMS OTP code) for cash loans in the amount of up to 600,000 dinars has been introduced.
All of the above resulted in a 12% higher achievement in lending than in the first quarter of 2020. March was the month with the highest lending realization in the last 10 years.
As a result of the growth of sales, the net balance of retail loans increased by 706 million dinars compared to the end of 2020.

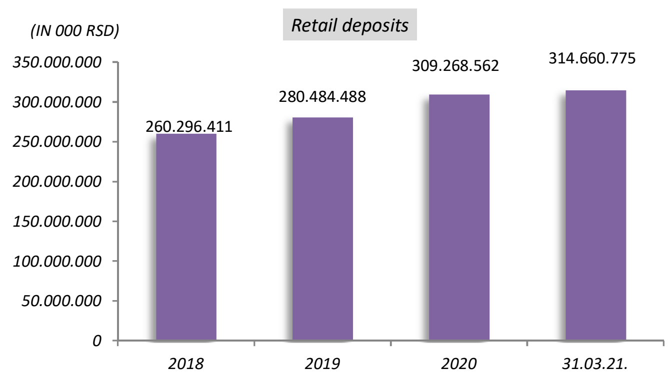
In the structure of the net balance, the share of housing loans is 43%, and the share of other products is 57%.





Deposits[5]

The bank is the institution which enjoys the utmost confidence of its clients, which is why the deposits are constantly growing. In the first quarter, deposits increased by 5,392 million dinars compared to the end of 2020.



Other products

The Bank has a respectable base of 1.3 million clients in the Retail Banking segment. In the most important segment of individual clients with regular salaries and pensions, the Bank has 413,000 clients, which is a quality base for further dynamic business growth. The number of clients who use the "Set account" as a higher quality product compared to the current account is constantly increasing. Out of a total of 332,000 "Sets of accounts", 12% are "Start sets" intended for the youngest clients, which means that the Bank develops a long-term client base.

In the micro business segment, it is also recording an increase in the number of "Sets of account" beneficiaries. More than 17,500 micro clients use the set account, and about 15,500 micro clients regularly use the Bank's electronic services.

The number of payment cards has slightly increased. The Bank's clients have about a million cards, half of which are used regularly.

Electronic banking of retail clients-natural persons

At the end of March 2021, the Bank will provide a service for more than 237,000 individual retail clients s through electronic channels.
The constant growth of users continued in the first quarter of 2021, where the "mBank" channel had an increase in users by 39% annually.
On the "eBank" channel, the growth in the number of users as of the first quarter of 2021 amounted to 13% annually.
The growth in the number of users of electronic channels is a consequence of the intensive activities of the business network to animate clients, given the numerous benefits that "eBanka" and "mBanka" provide.

The number of transactions increased significantly on the "mBank" channel, it is higher by 84% compared to the same period last year. On the "eBank" channel, the number of transactions, compared to the same period in 2020, increased by 4%.

[5] Position deposits does not include other liabilities and funds received through credit lines

Business network

The Bank operated in the retail segment in 203 branch offices, making us the market leader. 284 ATMs and about 13,400 POS terminals are available to customers, again making us one of the market leaders. Having in mind the needs of our clients, the Bank continued with the activities of enhancing the user experience by improving the appearance of branch offices, adjusting working hours and the like.

Profitability

Retail banking in the first quarter of 2021 generated total net income from interest and fees in the amount of 2,490 million dinars, which is 1.4% more than in the same period in 2020. Conditions have been created for the achievement of even higher net income arising from this segment in the coming period.

5.2. Corporate banking

Market – main tendencies

The operations of the Corporate Business Function in the first quarter of 2021 were, to a significant extent, under the influence of restrictive measures in the Republic of Serbia due to the COVID-19 virus pandemic. In 2021, the trend of lowering dinar interest rates continued, despite the fact that the NBS key interest rate level stagnated, while interest rates on foreign currency loans stabilized.

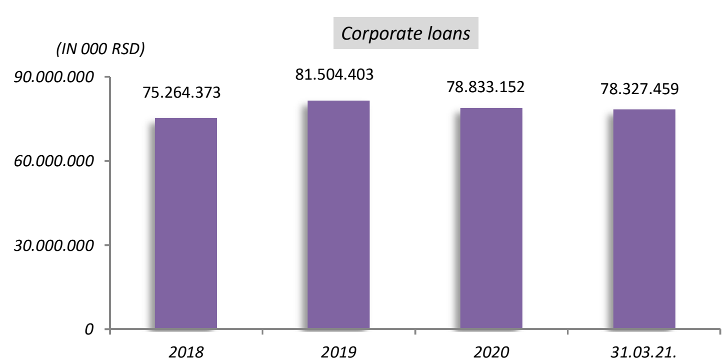
Banks' standards for newly approved corporate loans remained unchanged in 2021, primarily for small and medium enterprises, as well as for large enterprises.

Observed by maturity and currency, a slight easing of standards is present in short-term and long-term RSD corporate lending, as well as short-term corporate lending in foreign currency.

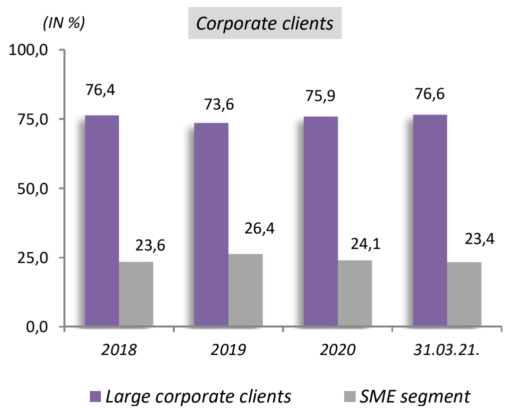
In 2021, there was a slight increase in the level of corporate loans. At the level of the banking sector, the level of loans is higher compared to the end of 2020 (total companies, public enterprises and local government recorded a growth of 0.3%, or RSD 4.99 billion)[6].

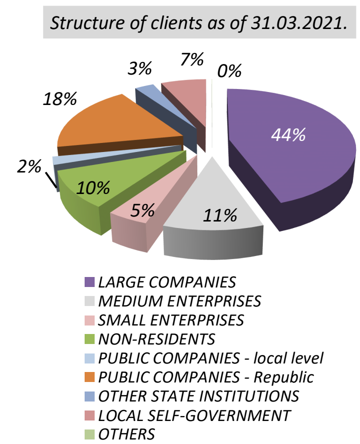
Loans[7]

The realization of newly approved loans in the first quarter of 2021 is lower by 27% compared to the same period in 2020. Compared to the same period last year, in the segment of large corporate clients, as well as in the SME segment, there was a decline in sales. Gross performance loans increased by 1.3% compared to the beginning of the year by 1.3% compared to the beginning of the year, and the share of large corporate clients in the portfolio structure increased from 75.9% (at the end of 2020) to 76.6%.



[6] NBS, Consolidated Balance Sheet of the Banking Sector, February 2021.
[7] The position loans to customers does not include other loans





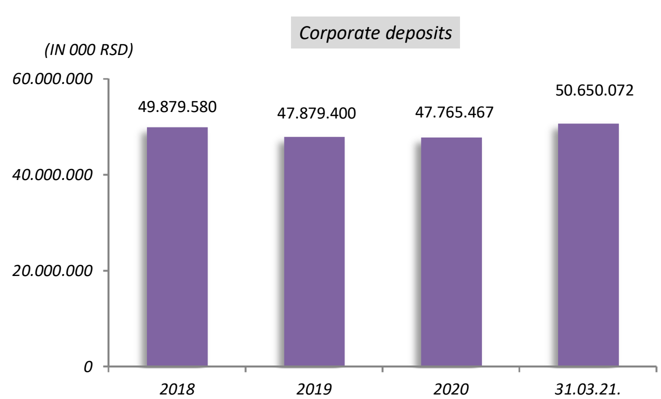
Average weighted interest rates on loans disbursed in RSD, as well as in EUR in 2021 are at a higher level compared to loans disbursed in 2020.

The interest rate on loans indexed in EUR is still lower in relation to RSD loans, which in the conditions of a stable exchange rate was the determining factor in the market for higher demand for loans with a currency sign in relation to RSD loans. Of the total amount of loans realized in 2021, 8% were in dinars, while 92% were realized through loans with a currency sign in EUR. Accordingly, in 2021, there was a decline in the share of RSD loans in the total portfolio.

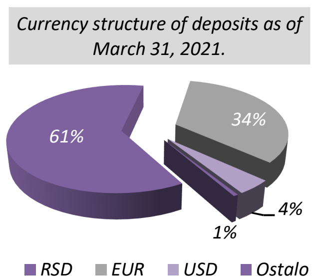
In terms of competition during 2021, Banca Intesa a.d. Beograd, UniCredit Bank Serbia a.d. Beograd, Raiffeisen Banka a.d. Belgrade and OTP Banka a.d. Beograd were the most active.

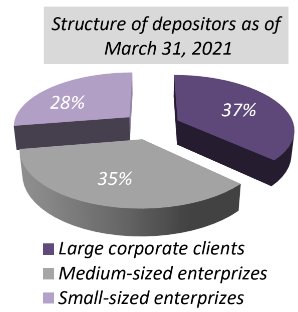
Deposits[8]

The high share of transaction deposits of 82% of total corporate deposits results in lower interest expenses and has a positive impact on the Bank's operating result.

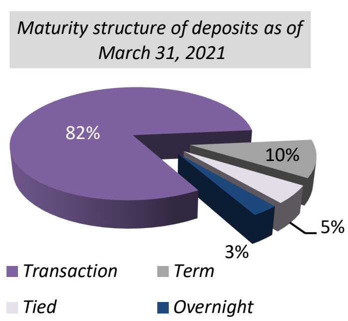


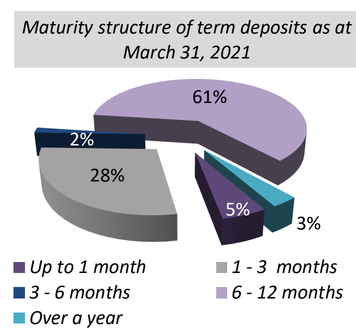
[8] Position deposits does not include other liabilities and funds received through credit lines





Note: The presentation of the structure of depositors is based on the internal segmentation of clients.





5.3. Asset Management

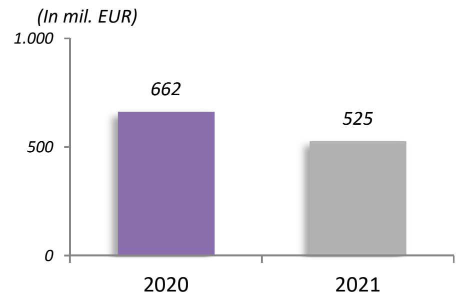
Starting from the strategic orientation of the Bank, the activity of the Treasury's business function is focused on active management of funds and liquidity while ensuring the smooth functioning of the Bank and meeting the business needs of clients.

The environment in which the Treasury function operated during the first quarter of 2021 was marked by the stabilization of interest rates at a relatively low level, the continuation of the declining trend in yields on domestic government securities and negative interest rates on EUR and CHF in foreign markets, in terms of available funds, which posed a very significant challenge in liquidity management.

The Bank's liquidity position was stable, and most of the short-term dinar liquidity was placed through short-term investments on the interbank market and through operations with the National Bank of Serbia.

In the total business with clients, as well as in authorized exchange offices and other banks on the interbank foreign exchange market, the volume of purchase and sale transactions decreased by 20.67% compared to the previous year, primarily as a result of the impact of the COVID-19 pandemic.

Purchase and sale of foreign currency of the Bank in 2021



The strategy of the Treasury function in the forthcoming period will be focused on prudent employment of liquid assets in risk-free and low-risk financial instruments.

6. BALANCE SHEET AS OF MARCH 31st 2021

6.1. The Bank assets as of March 31st 2021

(IN 000 RSD)

No.	BALANCE SHEET POSITION	31.03.2021.	31.12.2020.	INDEX
1	2	3	4	5=3/4
1	Cash and cash funds held with the central bank	80.223.934	80.045.107	100,2
2	Pledged financial assets	-	-	-
3	Receivables under derivatives	-	-	-
4	Securities	141.482.886	153.776.323	92,0
5	Loans and receivables due from banks and other financial organizations	35.847.651	18.142.070	197,6
6	Loans and receivables from customers	189.240.028	189.296.089	100,0
7	Change in fair value of instruments used for hedging	-	-	-
8	Receivables from derivatives used for hedging	-	-	-
9	Investments in subsidiaries and joint ventures	-	-	-
10	Investments in subsidiaries	3.433.697	3.433.697	100,0
11	Intangible assets	450.905	510.669	88,3
12	Property, plant and equipment	5.943.024	6.045.330	98,3
13	Investment property	1.809.902	1.819.507	99,5
14	Current tax assets	15.574	12.237	127,3
15	Deferred tax assets	856.133	-	-
16	Non-current assets held for sale and assets from discontinued operations	130.426	130.426	100,0
17	Other assets	5.626.115	6.216.268	90,5
	TOTAL ASSETS (from 1 to 17)	**465.060.275**	**459.427.723**	101,2

At the end of the first quarter of 2021, the Bank's balance sheet assets amounted to 465,060.3 million dinars and increased by 5,632.6 million dinars or 1.2% compared to the beginning of the year.

During the first three months of the current year, the position of cash and assets with the central bank increased by 178.8 million dinars or 0.2%.
Investments in securities at the end of the first quarter of 2021 amount to 141,482.9 million dinars. Compared to the beginning of the year, investments in securities decreased by 12,293.4 million dinars or 8.0%. At the end of March this year, securities investments accounted for 30.4% of the Bank's total balance sheet assets.

Loans and receivables from customers amount to 189,240.0 million dinars and in relation to the account balance recorded on December 31st 2020, they were reduced by 56.1 million dinars. Loans and receivables from customers on March 31st 2021 account for 40.7% of balance sheet assets.
Loans and receivables from banks and other financial organizations increased by 17,705.6 million dinars.

Total loans and receivables from customers and banks as of March 31, 2021 amount to 225,087.7 million dinars, which is 48.4% of the total balance sheet assets of the Bank.

In relation to December 31,.2020 (balance sheet date) when deferred tax assets are netted with deferred tax liabilities, during the business year deferred tax assets and deferred tax liabilities are stated on a gross basis on the projected positions within assets and liabilities.

Deferred tax assets, as of March 31, 2021, amount to 856.1 million dinars, and mostly consist of deferred tax assets on the basis of temporarily unrecognized expenses coming from the assets impairment in the amount of 343.0 million dinars and on the basis of provisions for litigation of 269.7 million dinars. This position of assets is explained in more detail in item 3.16. of the Notes to the financial statements for the first quarter of 2021.

6.2. Bank's Liabilities as of 31.03.2021

(IN 000 RSD)

No.	BALANCE SHEET ITEM	31.03.2021.	31.12.2020.	INDEX
1	2	3	4	5=3/4
1	Liabilities from derivatives	-	-	-
2	Deposits and other liabilities to banks, Other financial organizations and central bank	3.222.836	4.989.315	64,6
3	Deposits and other liabilities to other customers	379.055.170	372.699.401	101,7
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	2.593.367	2.529.268	102,5
9	Liabilities from assets available for sale and assets from discontinued operations	-	-	-
10	Current tax liabilities	-	-	-
11	Deferred tax liabilities	985.885	147.400	668,9
12	Other liabilities	4.942.597	4.975.476	99,3
	TOTAL LIABILITIES (from P 1 to P 12)	**390.799.855**	**385.340.860**	101,4
	CAPITAL			
13	Share capital	40.034.550	40.034.550	100,0
14	Own shares	-	-	-
15	Profit	5.515.789	5.319.351	103,7
16	Loss	-	-	-
17	Reserves	28.710.081	28.732.962	99,9
18	Unrealized losses	-	-	-
19	Non-controlling interest	-	-	-
20	**TOTAL CAPITAL (from 13 to 19)**	**74.260.420**	**74.086.863**	100,2
	TOTAL LIABILITIES (from P 1 to P 19)	**465.060.275**	**459.427.723**	101,2

At the end of 1Q of 2021 the Bank's total liabilities amount to 390,799.9 million dinars and account for 84.0% of total liabilities (as of 31.12.2020 the total liabilities accounted for 83.9% in liabilities). Concurrently, total capital is 74,260.4 million dinars and accounts for 16.0% in total liabilities (as of 31.12.2020 the share was 16.1%). Total liabilities increased relative to the end of previous year by 5,459.0 million dinars or 1.4%, while the total capital has been increased by 173.6 million dinars, or 0.2%.

Total deposits and other liabilities to banks and customers, at the end of 1Q 2021 amount to 382,278.0 million dinars, which accounts for 82.2% of total balance sheet liabilities. Total deposits and other liabilities recorded an increase compared to the end of previous year of 4,589.3 million dinars, or 1.2%.

The Item Deposits and other liabilities to customers has been increased in the reporting period by 6,355.8 million dinars, or 1.7%, while the Item Deposits and other liabilities to banks has been reduced in relation to the end of the previous year by 1,766.5 million dinars, or by 35.4%.

The Item Other liabilities has been reduced by 32.9 million dinars, or by 0.7%. During the first quarter of 2021 the Item Provisions has been increased by 64.1 million dinars due to increase in provisions for liabilities. Changes in the Item Provisions are explained in more details in Item 3.18., Notes to Financial Statements.
At the end of month of March 2021, the Liabilities arising from foreign credit lines amount to 962.3 million dinars and relative to the beginning of the year have been reduced by 15.0 million dinars.

Change in the Item Deferred tax liabilities is explained in more details in Items 3.16 and 3.19, Notes to Financial Statements.

6.3. Loans to Customers and Customers' Deposits as of 31.03.2021

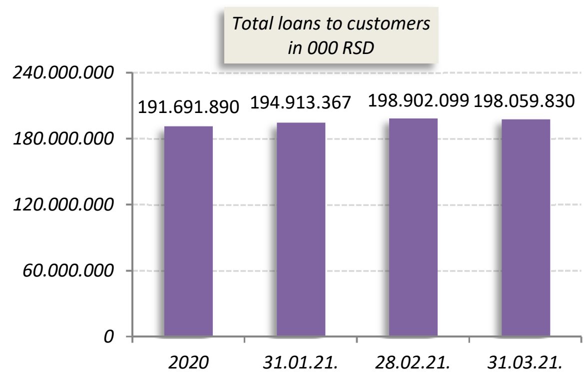
At the end of the first quarter of 2021, granted loans to customers (corporate, retail, banks and financial organizations in total amount of 198,059.8 million dinars, while the received customers' deposits reached the amount of 380,216.7 million dinars.

(IN 000 RSD)

No.	*ITEM*	*BALANCE AS OF 31.03.2021.*	*BALANCE AS OF 31.12.2020.*	*INDEX*
1	*2*	*3*	*4*	*5= (3:4)*100*
I	*LOANS TO CUSTOMERS (1.+2.+3.)*	198.059.830	191.691.890	103,3
1.	Corporate	78.327.459	78.833.152	99,4
2.	Retail	109.291.653	108.585.889	100,6
3.	Banks and financial organizations	10.440.718	4.272.849	244,4
II	*RECEIVED CUSTOMERS' DEPOSITS (1.+2.+3.)*	380.216.687	375.587.295	101,2
1.	Corporate	50.650.072	47.765.467	106,0
2.	Retail	314.660.775	309.268.562	101,7
3.	Banks and financial organizations	14.905.840	18.553.266	80,3

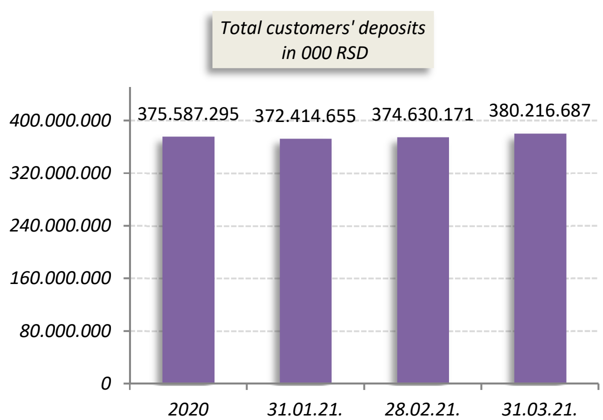
NOTE: granted loans excluding other placements and receivables, received deposits excluding other liabilities and received assets in a form of credit lines

The most significant individual category of balance sheet assets, Loans to customers, has increased compared to the beginning of the year by 6,367.9 million dinars, or by 3.3 %. In total assets loans to customers account for 42.6%.



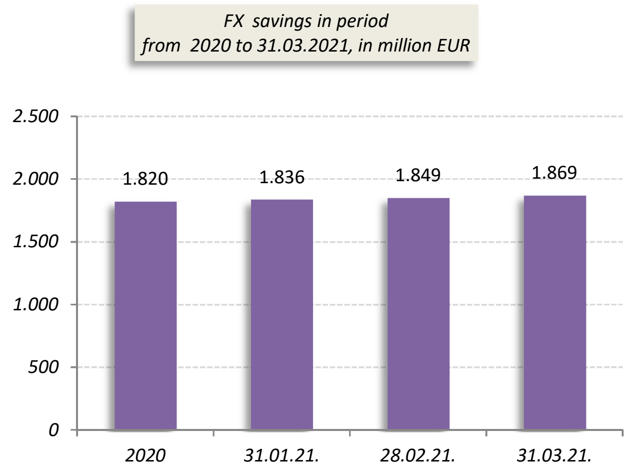
At the end of 1Q of 2021, loans to corporate clients reached the amount of 78,327.5 million dinars, which is a decline of 0.6% compared to the end of 2020. Loans to retail customers amounted to 109,291.7 million dinars and have increased by 0.6% compared to the end of the previous year. Relative to the beginning of the year a more considerable increase is recorded with loans to banks and financial organizations, and at the end of the 1Q of 2021 they reached the amount of 10,440.7 million dinars, which is an increase of 144.4%.

At the end of the first quarter of 2021 total customers' deposits amount to 380,216.7 million dinars and account for 81.8% of total liabilities, or 97.3% of total Bank's liabilities.



Total customers' deposits compared to the beginning of the year have been increased by 4,629.4 million dinars, or by 1.2%.

In the deposits structure, the retail deposits prevail, which reached the amount of 314,660.8 million dinars and account for 82.8% of total customers' deposits, while corporate deposits amount to 50,650.1 million dinars and account for 13.3% of total deposits. Relative to the beginning of the year deposits of banks and financial organizations have decreased by 3,647.4 million dinars, or by 19.7%. Share of deposits of banks and financial organizations in total deposits is 3.9% as at 31.03.2021.



Despite the reduction of debit interest rates both those of the banking sector and of the Bank, the foreign currency savings of Bank's clients have been preserved and at the end of 1Q 2021 the FX savings amount to 1,869 million euros, which is an increase of 2.7% since the beginning of the year.

The trust of depositors enabled the Bank to maintain its leading position within the banking sector of the Republic of Serbia in terms of the volume of collected foreign currency savings, image and recognizability.

6.4. Off-Balance Sheet Items in 2021

(IN 000 RSD)

No.	ITEM	BALANCE AS OF 31.03.2021.	BALANCE AS OF 31.12.2020.	INDEX
1	2	3	4	5=(3:4)*100
1	ACTIVITIES ON BEHALF OF AND FOR ACCOUNT OF THIRD PARTIES	4.068.203	4.097.143	99,3
2	UNDERTAKEN FUTURE LIABILITIES	40.712.353	42.879.760	94,9
3	GUARANTEES RECEIVED FOR FUTURE LIABILITIES	0	0	-
4	DERIVATIVES	0	0	-
5	OTHER OFF-BALANCE SHEET ITEMS	430.364.338	442.328.167	97,3
	TOTAL	**475.144.894**	**489.305.071**	97,1

Total off-balance sheet assets of the Bank, during the first quarter of 2021, have been reduced by 14,160.2 million dinars in comparison to the end of 2020.

As of 31.03.2021 the undertaken future liabilities, including the issued guarantees and other sureties amount to a total of 40,712.4 million dinars, which in comparison to the end of previous year is a decline by 2,167.4 million dinars or by 5.1%, mainly due to reduction of other undertaken commitments.

Activities on behalf of and for account of third parties, as of 31.3.2021 amount to 4,068.2 million dinars and have been reduced by 28.9 million dinars, or by 0.7% relative to the end of 2020.

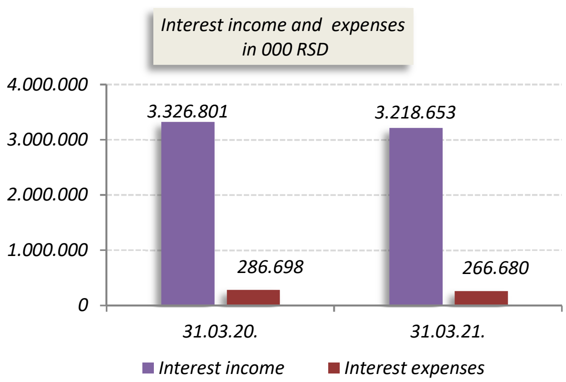
Other off-balance sheet items have been reduced by 11,963.8 million dinars, or by 2.7% compared to the end of previous year, as a result of changes on other off-balance sheet assets.

7. P&L STATEMENT FOR THE PERIOD FROM 01.01. TO 31.03.2021

(IN 000 RSD)

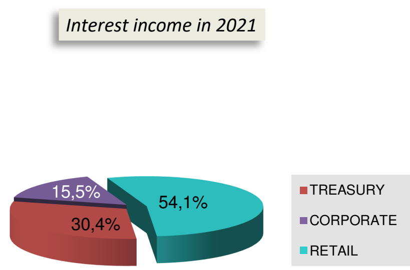
NO.	BALANCE SHEET ITEM	31.03.2021.	31.03.2020.	INDEX
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	3.218.653	3.326.801	96,7
1.2.	Interest expenses	(266.680)	(286.698)	93,0
1.	**Net interest income/expenses**	**2.951.973**	**3.040.103**	97,1
2.1.	Fee and commission income	1.620.557	1.637.652	99,0
2.2.	Fee and commission expenses	(414.448)	(438.437)	94,5
2.	**Net fee and commission income /expenses**	**1.206.109**	**1.199.215**	100,6
3.	Net gain/loss from fair value changes of FI	52.635	(29.768)	-
4.	Net gain/loss from reclassification of FI	-	-	-
5.	Net gain/loss from derecognition of FIs that are measured at fair value	107.088	76.242	140,5
6.	Net profit /loss from hedging	-	-	-
7.	Net income/expense from currency exchange differences and the effects of agreed currency clause	11.505	(17.155)	-
8.	Net income/expense from impairment of financial assets that are not measured at fair value through P&L	(1.252.837)	5.962	-
9.	Net profit /loss from derecognition of financial instruments that are measured at amortized cost	-	-	-
10.	Net profit /loss from derecognition of investment in affiliates and joint ventures	-	-	-
11.	Other operating income	63.401	86.310	73,5
12.	**TOTAL NET OPERATING INCOME**	**3.139.874**	**4.360.909**	72,0
13.	**TOTAL NET OPERATING EXPENSES**	-	-	-
14.	Costs of salaries, fringe benefits and other personal expenses	(1.178.238)	(1.110.357)	106,1
15.	Depreciation costs	(240.943)	(246.304)	97,8
16.	Other income	67.353	670.475	10,0
17.	Other expenses	(1.605.218)	(1.406.584)	114,1
18.	**PROFIT BEFORE TAX**	**182.828**	**2.268.139**	-
19.	**LOSS BEFORE TAX**	-	-	
20.	Corporate income tax	-	-	-
21.	Deferred tax gain	13.610	-	-
22.	Deferred tax loss	-	-	-
23.	**PROFIT AFTER TAX**	**196.438**	**2.268.139**	-
24.	**LOSS AFTER TAX**	-	-	-
25.	Net profit from discontinued operations	-	-	-
26.	Net loss from discontinued operations	-	-	-
27.	**RESULT OF THE PERIOD – PROFIT**	**196.438**	**2.268.139**	-
28.	**RESULT OF THE PERIOD – LOSS**	-	-	-
29.	Profit attributable to the parent entity			
30.	Profit attributable to owners of non-controlling interest			
31.	Loss attributable to the parent entity			
32.	Loss attributable to owners of non-controlling interest			
33.	Earnings per share			
34.	Basic earnings per share			
35.	Reduced (diluted) earnings per share			

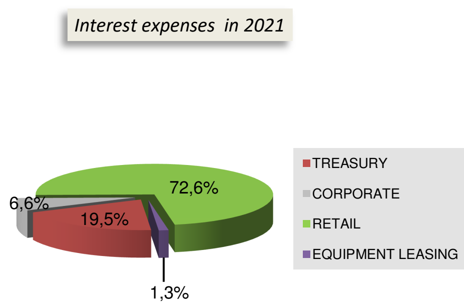
7.1. Interest Income and Expenses



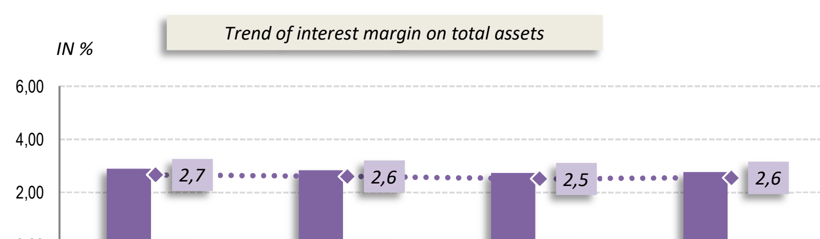
During the 1Q of 2021 net interest income was realized in amount of 2,952.0 million dinars, which is y-o-y reduction of 2.9%.

Compared to 1Q last year, the interest income is lower by 108.1 million dinars, or by 3.3%, wile the interest expenses are lower by 20.0 million dinars, or by 7.0%.





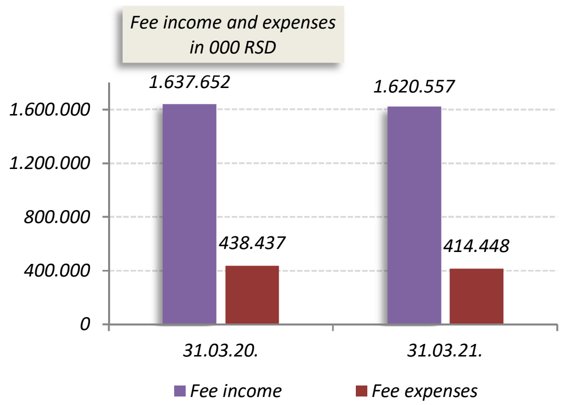
Within the interest income, the interest income from retail operations have the largest share (1,741.4 million dinars or 54.1%). Within interest expenses, interests on retail deposits also prevail (193.5 million dinars, or 72.6%), which is mainly a result of interest expenses on collected foreign currency savings.



	2020	januar	februar	mart
Average lending interest rate	2,92	2,85	2,75	2,79
Average debit interest rate	0,25	0,25	0,23	0,23
Average interest margin	2,67	2,60	2,52	2,56

At the end of first quarter of 2021 the average lending interest rate was 2.79%, and average debit interest rate 0.23%, so the average interest margin of the Bank was 2.56% in the 1Q of 2021.

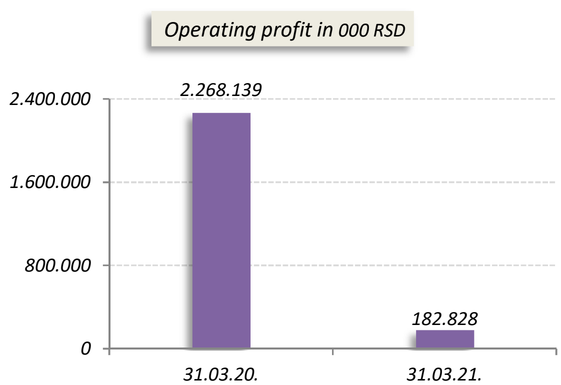
7.2. Fee income and expenses



During the 1Q of 2021, when compared to the same period last year, fee and commission income for banking services is lower by 17.1 million dinars, or by 1.0%. At the same time the fee and commission expenses are also lower by 24.0 million dinars, or by 5.5%.

Fee and commission gain for the1Q of 2021 amounts to 1,206.1 million dinars and is higher by 6.9 million dinars y-o-y.

7.3. Realized Operating Profit



In the period from January 1 to March the 31 2021 the operating profit of 182.8 million dinars was realized which is, y-o-y, a decline.

The realized operating profit provided the Bank, in the first quarter of 2021, with a return on total capital of 0.98%, i.e. a return on average assets of 0.16%.

7.4. Performance Indicators Prescribed by the Law on Banks

NO.	ITEM	PRESCRIBED	31.03.2021.	2020.
1.	CAPITAL ADEQUACY RATIO (CAPITAL / RISK ASSETS); *REQUIREMENT FOR COUNTERCYCLICAL CAPITAL BUFFER	MIN 12,8%+rccb*	29,96%	32,50%
2.	INDICATOR OF INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR AND FIXED ASSETS	MAX 60%	11,37%	11,53%
3.	INDICATOR OF LARGE EXPOSURE OF A BANK	MAX 400%	11,01%	2,21%
4.	FOREIGN EXCHANGE RISK RATIO	MAX 20%	2,45%	1,95%
5.	LIQUIDITY RATIO (monthly, last day of the month)	MIN 0,8	4,58	4,06

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

8. DESCRIPTION OF MAIN RISKS AND THREATS TO WHICH THE COMPANY IS EXPOSED

A detailed description of the main risks and threats to which the Bank is exposed in the forthcoming period is presented in the chapter Risk Management, Notes to the Financial Statements for the first quarter of 2021

9. ALL MAJOR TRANSACTIONS WITH RELATED PARTIES

As of 31.03.2021 the parties related to the Bank are as follows:

1. Nova Ljubljanska banka dd Ljubljana
2. NLB Banka a.d. Beograd
3. Komercijalna banka a.d. Podgorica, Montenegro,
4. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
5. KomBank Invest a.d. Beograd,
6. three legal entities and a number of private individuals, according to the provisions of the Article 2 of the Law on Banks in part that regulates the term „parties related to the bank".

Total exposure to parties related to the Bank as of 31.03.2021 amounted to 682.0 million dinars, which in relation to regulatory capital[9] of 68,186.6 million dinars was 1.0% (the maximum value of total exposures to all parties related to the Bank under the Law on Banks is 25% of the capital).

The maximum individual exposure to persons related to the Bank (in accordance with the NBS methodology for presentation of exposure to persons related to the Bank), as at 31.3.2021 is the exposure amounting to 510.2 million dinars, or 0.7% of the Bank's regulatory capital.

In accordance with Article 37 of the Law on Banks, the Bank did not grant loans to persons related to the Bank under conditions that are more favorable than the conditions for granting loans to other persons not related to the Bank.

10. DESCRIPTION OF ALL SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END

After the end of 2020 and during the first quarter of 2021 among most important business events we single out the extraordinary General Meeting of Bank's Shareholders which was held on 28.01.2021.
At the extraordinary General Meeting of Bank's Shareholders of 28.01.2021, the following decisions were rendered:

1. Decision on Amendments and Supplements to the Articles of Association of Komercijalna banka AD Beograd
2. Decision on Release from Duty of the Chairperson of the General Meeting of Shareholders of Komercijalna banka AD Beograd
3. Approval of the General Meeting of Bank's Shareholders for Increase of Ownership Share in Komercijalna banka AD Banja Luka to 100%
4. Decision on Determining the Remuneration for the Members of the Bank's Board of Directors and other Boards and Committees of the Bank.

On 28.04.2021 the regular General Meeting of Bank's Shareholders was held. At the regular General Meeting of Bank's Shareholders the following decisions were rendered:

1. Decision on Adoption of the Annual Report on Operations and Regular Financial Statements of the Bank for the year 2020 with the opinion of the external auditor
2. Decision on Adoption of the Annual Report on Group's Operations and Financial Statements of the Group for the year 2020 with the opinion of the external auditor
3. Decision on profit distribution from 2020, as well as undistributed profits from previous years
4. Decision on Repealing the Bank's Dividend Policy

[9] Capital calculated in line with the regulations of the National Bank of Serbia

5. Decision on Adoption of the Rules of Procedure of the General Meeting of Shareholders
6. Decision on Release from Duty of the Member of the Board of Directors - Guy Richard Steel Stevens
7. Decision on Appointment of the Member of the Board of Directors - Veljko Kuštrov.

Serbia, like other countries in Europe, is still facing a pandemic caused by the COVID-19 coronavirus during the first quarter of 2021. During the first quarter of 2021, the Republic of Serbia is conducting an intensive process of immunization of the domestic population as well as citizens of other countries under certain conditions.
In accordance with legal regulations and recommendations of public health institutions, the Bank continues to take all necessary measures to ensure that business activities in the changed conditions are carried out without hindrance with the full protection of the Bank's employees and clients.

The description of events after the balance sheet date is presented in Item 6 of the Notes to Financial Statements for the first quarter of 2021.

11. BASIC INFORMATION ABOUT THE IMPLEMENTATION OF THE BUSINESS PLAN FOR 2021

The business year 2020 and the first quarter of 2021 were marked by the still present pandemic of the COVID-19 corona virus and the achieved macroeconomic and financial stability[10], which is in line with the expectations that the Bank had when drafting the Business Plan for 2021.

Despite the fact that economic activity slowed down in the Eurozone member states during 2020, the decline in Serbia's GDP in 2020, according to the RSO, was 1.0%[11], which is in line with previous projections. The most considerable negative contribution to the decline in GDP was made by the service sector, which recorded a decline of 1.6%, construction industry which recorded a decline of 5.1% while agriculture made a positive contribution with a growth of 4.2%[12]. As a result of macroeconomic and financial stability, improved business environment, strong inflow of foreign direct investments, with a new (third package) of measures to ease business conditions, the National Bank of Serbia has projected the GDP growth in 2021 from 5.0 to 6.0%[13]. An additional financial assistance package of EUR 2.2 billion[14] intended to overcome the problems caused by the COVID-19 coronavirus pandemic is expected to contribute to GDP recovery.

Inflation, which was low and stable during 2020 and averaged 1.6%, remained low in the first quarter of 2021. Year-on-year inflation at the end of March is 1.8%[15], and according to the March projection in the coming period it should be around the lower limit of the target range (3 ± 1.5%), but it is expected to be slightly higher this year than the previous one[16].

Observed on annual basis, during 2020 the National Bank of Serbia sold on the interbank foreign exchange market (IFEM) EUR 1,450.0 million net[17] which contributed to maintaining the relative stability of the Dinar exchange rate against the Euro. The stability on the foreign exchange market continued in the first quarter of 2021, and so the value of the Dinar against the Euro remained unchanged.

Confirmation of the good economic perspective of Serbia can be found in the assessments of the three leading rating agencies. In March 2021, the Moody's agency upgraded Serbia's credit rating from Ba3 to Ba2 with a stable outlook for further rating growth. The rating agency Fitch kept Serbia's credit rating at BB+, one level up to the investment rating, with stable prospects for its further increase. Among the key factors for obtaining an investment rating, Fitch points out the reduction of the share of public debt in the gross domestic product, the good prospects of economic growth and the reduction of external imbalances. In March 2021, the S&P agency maintained Serbia's credit rating at BB+.[18]

10 National Bank of Serbia, Macroeconomic trends in Serbia, April 2021
11 National Bank of Serbia, Macroeconomic trends in Serbia, April 2021
12 MFIN, Current macroeconomic trends, March 2021
13 National Bank of Serbia, Macroeconomic trends in Serbia, April 2021
14 National Bank of Serbia, Macroeconomic trends in Serbia, April 2021
15 RZS, Announcement, March 2021
16 National Bank of Serbia, Macroeconomic trends in Serbia, April 2021
17 National Bank of Serbia, Inflation Report, February 2021
18 National Bank of Serbia, Macroeconomic trends in Serbia, April 2021

11.1. Planned and Realized Balance Sheet Values for the First Quarter of 2021

At the end of 1Q of 2021 the total balance sheet assets of the Bank amount to 465,060 million dinars and compared to the value planned for the end of the year they are lower by 3,281 million dinars, or by 0.7%.

As of 31.03.2021 the investment in securities amounts to 141,483 million dinars and is by 2,003 million dinars or by 1.4% above the planned amount for the whole year. The reasons for higher investment in securities compared to the plan can be found, among other things, in lower credit activity than planned given the present pandemic of the COVID-19 virus and related problems.

Loans to customers at the end of the first quarter of 2021 amount to 198,060 million dinars. In order to achieve the planned annual level of loans granted to customers it is necessary that the Bank in the next three quarters employs the funds in amount of 23,916 million dinars, and/or to achieve the growth of 10.8%.

At the end of 1Q of 2021 total deposits reached the value of 380,217 million dinars. In order to achieve the annual planned amounts it is necessary in the course of the next three quarters of the current year to achieve the growth of total deposits in amount of 2,585 million dinars, or 0.7%. The most considerable growth is expected in relation to deposits of banks and financial organizations, the increase of 5,594 million dinars, or 27.3% is expected and also in relation to corporate deposits, the expected increase is 2,992 million dinars, or 5.6%.

As of 31.03.2021 other liabilities are at the level of the annual planned value.

Realized and planned positions of assets and liabilities in balance sheet as of 31.03.2021 are of the following values:

(In million RSD)

NO.	ITEM	Plan 31.12.2021.	Realized 31.03.2021.	INDEX
1	2	3	4	5=4/3
	ASSETS			
1.	Cash and cash equivalents	72.624	80.224	110,5
2.	Securities	139.480	141.483	101,4
3.	**Loans granted (3.1.+3.2.+3.3.)**	**221.976**	**198.060**	89,2
3.1.	Corporate	84.570	78.327	92,6
3.2.	Retail	120.051	109.292	91,0
3.3.	Banks and financial organizations	17.355	10.441	60,2
4.	Other assets	34.262	45.294	132,2
5.	**TOTAL ASSETS (1.+2.+3.+4.)**	**468.341**	**465.060**	99,3
	LIABILITIES			
1.	**Deposits (1.1.+1.2.+1.3.)**	**382.802**	**380.217**	99,3
1.1.	Corporate	53.642	50.650	94,4
1.2.	Retail	308.660	314.661	101,9
1.3.	Banks and financial organizations	20.500	14.906	72,7
2.	Other liabilities	10.564	10.583	100,2
3.	**Total liabilities (1.+2.)**	**393.366**	**390.800**	99,3
4.	**Total capital**	**74.975**	**74.260**	99,0
5.	**TOTAL LIABILITIES (3.+4.)**	**468.341**	**465.060**	99,3

11.2. Planned and Realized P&L Values for Period 01.01-31.03.2021

(IN million RSD)

NO.	ITEM	Plan 01.01.-31.03.2021.	Realized 01.01.-31.03.2021.	INDEX
1	2	3	4	5=4/3
1.1.	Interest income	3.213	3.219	100,2
1.2.	Interest expenses	-278	-267	96,0
1.	**Interest gain (1.1.+1.2.)**	**2.935**	**2.952**	100,6
2.1.	Fee and commission income	1.606	1.621	100,9
2.2.	Fee and commission expenses	-391	-414	105,9
2.	**Fee and commission gain (2.1. +2.2.)**	**1.216**	**1.206**	99,2
3.	Net exchange rate differences and change in value (FX clause)	0	12	-
4.	Net other operating income / expenses	-32	-31	96,9
5.	Net expenses/income from reduction of impairment of financial assets that are not measured at fair value through P&L	-1.245	-1.253	100,6
6.	Operating expenses	-2.677	-2.703	101,0
7.	**OPERATING PROFIT (1+2+3+4+5+6)**	**197**	**183**	92,9

In period 01.01-31.03.2021, the Bank generated the profit before tax in the amount of 183 million dinars which is by 14 million or 7.1% below the planned value.

The generated net interest income is higher than planned by 0.6%, while net fee and commission income were realized with 99.2% of the planned amount. The lower realization of net fee income is crucially influenced by slightly higher recorded fee and commission expenses compared to the planned value.

In three months of 2021 the Bank realized operating expenses in amount of 2,703 million dinars, which is by 26 million dinars, or 1.0% above the planned amount for the same period.

Net expenses from reduction of impairment of financial assets that are not measured at fair value through P&L Statement have been realized in amount of 1,253 million dinars and are higher than the planned amount by 8 million dinars, or 0.6%.
The amount of net other operating expenses is lower than the planned amount by 1 million dinars for the first quarter of the current year.

Signed on behalf of Komercijalna Banka ad Beograd

Д. Ромaндић

Dragana Romandić
Director of Controlling and Planning Division

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

Dejan Janjatović
Deputy Chief Executive Officer

BALANCE SHEET

on 31.03.2021.

(in RSD thousand)

POSITION	ADP code	Amount: Current year ammount	Amount: Previous year ammount
1	2	3	4
ASSETS			
ASSETS Cash and assets held with central bank	0001	80.223.934	80.045.107
Pledged financial assets	0002	-	-
Receivables under derivatives	0003		
Securities	0004	141.482.886	153.776.323
Loans and receivables from banks and other financial organisations	0005	35.847.651	18.142.070
Loans and receivables from clients	0006	189.240.028	189.296.089
Change in fair value of hedged items	0007	-	-
Receivables under hedging derivatives	0008	-	-
Investments in associated companies and joint ventures	0009	-	-
Investments into subsidiaries	0010	3.433.697	3.433.697
Intangible investments	0011	450.905	510.669
Property, plant and equipment	0012	5.943.024	6.045.330
Investment property	0013	1.809.902	1.819.507
Current tax assets	0014	15.574	12.237
Deferred tax assets	0015	856.133	
Non-current assets held for sale and discontinued operations	0016	130.426	130.426
Other assets	0017	5.626.115	6.216.268
TOTAL ASSETS (from 0001 to 0017)	0018	465.060.275	459.427.723
LIABILITIES			
LIABILITIES Liabilities under derivatives	0401	-	-
Deposits and other liabilities to banks, other financial organisations and central bank	0402	3.222.836	4.989.315
Deposits and other financial liabilities to clients	0403	379.055.170	372.699.401
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	2.593.367	2.529.268
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	-	-
Deferred tax liabilities	0411	985.885	147.400
Other liabilities	0412	4.942.597	4.975.476
TOTAL LIABILITIES (from 0401 to 0412)	0413	390.799.855	385.340.860
CAPITAL			
CAPITAL Share capital	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	5.515.789	5.319.351
Loss	0417	-	-
Reserves	0418	28.710.081	28.732.962
Unrealized losses	0419	-	-
Non-controlling participation	0420	-	-
TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0	0421	74.260.420	74.086.863
TOTAL CAPITAL SHORTFALL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0	0422	-	-
TOTAL LIABILITIES (0413 + 0421 - 0422)	0423	465.060.275	459.427.723

Đenović

INCOME STATEMENT

from 01.01.2021. to 31.03.2021.

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.01.-31.03.	01.01.-31.03.	01.01.-31.03.	01.01.-31.03.
1	2	3*	4**	5	6
Interest income	1001	3.218.653	3.218.653	3.326.801	3.326.801
Interest expenses	1002	266.680	266.680	286.698	286.698
Net interest gains (1001-1002)	1003	2.951.973	2.951.973	3.040.103	3.040.103
Net interest losses (1002-1001)	1004	-	-	-	-
Income from fees and commissions	1005	1.620.557	1.620.557	1.637.652	1.637.652
Expenses on fees and commissions	1006	414.448	414.448	438.437	438.437
Net gains from fees and commissions (1005 - 1006)	1007	1.206.109	1.206.109	1.199.215	1.199.215
Net losses on fees and commissions (1006 - 1005)	1008	-	-	-	-
Net gains from changes in fair value of financial instruments	1009	52.635	52.635		
Net losses from changes in fair value of financial instruments	1010	-	-	29.768	29.768
Net gains on reclassification of financial instruments	1011	-	-	-	-
Net losses on reclassification of financial instruments	1012	-	-	-	-
Net gains from derecognition of the financial instruments measured at fair value	1013	107.088	107.088	76.242	76.242
Net losses on derecognition of the financial instruments measured at fair value	1014	-	-	-	-
Net gains from hedging	1015	-	-	-	-
Net losses on hedging	1016	-	-	-	-
Net exchange rate gains and gains from agreed currency clause	1017	11.505	11.505	-	-
Net exchange rate losses and losses on agreed currency clause	1018	-	-	17.155	17.155
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	-	-	5.962	5.962
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	1.252.837	1.252.837	-	-
Net gains from derecognition of the financial instruments measured at amortised cost	1021	-	-	-	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	-	-	-	-
Net gains from derecognition of investments in associated companies and joint ventures	1023	-	-	-	-
Net losses on derecognition of investments in associated companies and joint ventures	1024	-	-	-	-
Other operating income	1025	63.401	63.401	86.310	86.310
TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1026	3.139.874	3.139.874	4.360.909	4.360.909
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1027	-	-	-	-
Salaries, salary compensations and other personal expenses	1028	1.178.238	1.178.238	1.110.357	1.110.357
Depreciation costs	1029	240.943	240.943	246.304	246.304
Other income	1030	67.353	67.353	670.475	670.475
Other expenses	1031	1.605.218	1.605.218	1.406.584	1.406.584
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	182.828	182.828	2.268.139	2.268.139
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0	1033	-	-	-	-
Profit tax	1034	-	-	-	-
Gains from deferred taxes	1035	13.610	13.610	-	-
Losses on deferred taxes	1036	-	-	-	-
PROFIT AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0	1037	196.438	196.438	2.268.139	2.268.139
LOSSES AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) < 0	1038	-	-	-	-
Net profit from discontinued operations	1039	-	-	-	-
Net losses on discontinued operations	1040	-	-	-	-
RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1041	196.438	196.438	2.268.139	2.268.139
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-	-	-
Profit belonging to a parent entity	1043	-	-	-	-
Profit belonging to non-controlling owners	1044	-	-	-	-
Losses belonging to a parent entity	1045	-	-	-	-
Losses belonging to non-controlling owners	1046	-	-	-	-
EARNINGS PER SHARE					
Basic earnings per share (in dinars, without paras)	1047	-	-	-	-
Diluted earnings per share (in dinars, without paras)	1048	-	-	-	-

Column 3 for: 1 quartal 01.01.-31.03.; 2 quartal 01.04.-30.06.; 3 quartal 01.07.-30.09.
Column 4 for: 1 quartal 01.01.-31.03.; 2. quartal 01.01.-30.06.; 3 quartal 01.01.-30.09.

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

STATEMENT OF OTHER COMPREHENSIVE RESULT

from 01.01.2021 to 31.03.2021

(in RSD thousand)

POSITION	ADP code	Amount: Current year 01.01.-31.03.	Amount: Current year 01.01.-31.03.	Amount: Previous year 01.01.-31.03.	Amount: Previous year 01.01.-31.03
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	196.438	196.438	2.268.139	2.268.139
LOSS FOR THE PERIOD	2002	-	-	-	-
Other comprehensive income for the period **Components of other comprehensive income which cannot be reclassified to profit or loss:** Increase in revaluation reserves based on intangible assets and fixed assets	2003	-	-	7.894	7.894
Decrease in revaluation reserves based on intangible assets and fixed assets	2004	-	-	-	-
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	69.108	69.108	-	-
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008			265.246	265.246
Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009	-	-	-	-
Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010	-	-	-	-
Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011	-	-	-	-
Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014	-	-	-	-
Components of other comprehensive income that may be reclassified to profit or loss: Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	2015	-	-	-	-
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	96.027	96.027	1.146.921	1.146.921
Gains from cash flow hedges	2017	-	-	-	-
Losses from cash flow hedges	2018	-	-	-	-
Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019	-	-	-	-
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	-	-	-	-
Unrealised gains from hedge of net investments in foreign operations	2021	-	-	-	-
Unrealised losses from hedge of net investments in foreign operations	2022	-	-	-	-
Unrealised gains from other hedging instruments	2023	-	-	-	-
Unrealised losses from other hedging instruments	2024	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2025	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2026	-	-	-	-
Tax gains relating to other comprehensive income for the period	2027	14.404	14.404	211.825	211.825
Tax losses relating to other comprehensive income for the period	2028	10.366	10.366	1.184	1.184
Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) ≥ 0	2029	-	-		-
Total negative comprehensive income 2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) < 0	2030	**22.881**	**22.881**	**1.193.632**	**1.193.632**
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	**173.557**	**173.557**	**1.074.507**	**1.074.507**
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	-	-	-	-
Total positive comprehensive income for the period attributable to the parent entity	2033	-	-	-	-
Total positive comprehensive income for the period attributable to non-controlling owners	2034	-	-	-	-
Total negative comprehensive income for the period attributable to the parent entity	2035	-	-	-	-
Total negative comprehensive income for the period attributable to non-controlling owners	2036	-	-	-	-

Coloumn 3 for 1. quartal 01.01.-31.03.; 2. quartal 01.04.-30.06.; 3. quartal 01.07.-30.09.
Coloumn 4 for 1. quartal 01.01.-31.03.; 2. quartal 01.01.-30.06.; 3. quartal 01.01.-30.09.

Веловић

CASH FLOW STATEMENT

from 01.01.2021. to 31.03.2021.

(in RSD thousand)

	POSITION	ADP code	Amount 01.01.-31.03.2021.	01.01-31.03.2020.
	1	2	3*	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflow from operating activities (from 3002 to 3005)**	3001	7.725.289	7.017.130
1.	Interest	3002	5.772.626	5.197.420
2.	Fees	3003	1.631.264	1.680.824
3.	Other operating income	3004	321.038	136.866
4.	Dividends and profit sharing	3005	361	2.020
II.	**Cash outflow from operating activities (from 3007 to 3011)**	3006	2.857.397	2.616.517
5.	Interest	3007	289.344	212.287
6.	Fees	3008	413.908	435.062
7.	Gross salaries, salary compensations and other personal expenses	3009	764.181	763.077
8.	Taxes, contributions and other duties charged to income	3010	173.331	167.362
9.	Other operating expenses	3011	1.216.633	1.038.729
III.	**Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	4.867.892	4.400.613
IV.	**Net cash outflow from operating activities before an increase or decrease in financial assets and financial liabilities (3006 - 3001)**	3013	-	-
V.	**Decrease in financial assets and increase in financial liabilities (from 3015 to 3020)**	3014	6.020.675	8.237.459
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	-
11.	Decrease in receivables under securities and other financial assets not intended for investment	3016	1.831.960	2.845.257
12.	Decrease in receivables under hedging derivatives and change in fair value of hedged items	3017	-	-
13.	Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	3018	4.188.715	5.392.202
14.	Increase in other financial liabilities	3019	-	-
15.	Increase in liabilities under hedging derivatives and change in fair value of hedged items	3020	-	-
VI.	**Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)**	3021	6.686.686	4.843.699
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	6.686.686	4.843.699
17.	Increase in receivables under securities and other financial assets not intended for investment	3023	-	-
18.	Increase in receivables under hedging derivatives and change in fair value of hedged items	3024	-	-
19.	Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	3025	-	-
20.	Decrease in other financial liabilities	3026	-	-
21.	Decrease in liabilities under hedging derivatives and change in fair value of hedged items	3027	-	-
VII.	**Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)**	3028	4.201.881	7.794.373
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3029	-	-
22.	Profit tax paid	3030	3.337	-
23.	Dividends paid	3031	6.801	-
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	4.191.743	7.794.373
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	-	-
B.	**CASH FLOWS FROM INVESTMENT ACTIVITIES**			
I.	**Cash inflow from investing activities (from 3035 to 3039)**	3034	8.461.636	6.668.200
1.	Investment in investment securities	3035	8.461.636	6.668.200
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	-	-
4.	Sale of investment property	3038	-	-
5.	Other inflow from investing activities	3039	-	-
II.	**Cash outflow from investing activities (from 3041 to 3045)**	3040	40.770	16.461.159
6.	Investment into investment securities	3041	1.371	16.386.529
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	39.399	74.630
9.	Purchase of investment property	3044	-	-
10.	Other outflow from investing activities	3045	-	-
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	8.420.866	-
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	-	9.792.959
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflow from financing activities (from 3049 to 3054)**	3048	99.682.124	39.577.371
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	99.682.124	39.577.371
4.	Issuance of securities	3052	-	-
5.	Sale of own shares	3053	-	-
6.	Other inflow from financing activities	3054	-	-
II.	**Cash outflow from financing activities (from 3056 to 3060)**	3055	99.707.578	39.328.803
7.	Purchase of own shares	3056	-	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	99.597.046	39.221.015
10.	Issuance of securities	3059	-	-
11.	Other outflow from financing activities	3060	110.532	107.788
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	-	248.568
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	25.454	-
D.	**TOTAL CASH INFLOWS (3001 + 3014 + 3034 + 3048)**	3063	121.889.724	61.500.160
E.	**TOTAL CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	109.302.569	63.250.178
F.	**NET INCREASE IN CASH (3063 - 3064)**	3065	12.587.155	-
G.	**NET DECREASE IN CASH (3064 - 3063)**	3066	-	1.750.018
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**	3067	51.637.298	40.866.651
I.	**EXCHANGE RATE GAINS**	3068	256.437	202.127
J.	**EXCHANGE RATE LOSSES**	3069	233.491	86.985
K.	**CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)**	3070	64.247.399	39.231.775

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

STATEMENT OF CHANGES IN EQUITY

from 01.01.2021. to 31.03.2021.

(in RSD thousand)

ITEM	ADP code	Share capital and other equity (accounts 800, 801,803, 809)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (group of accounts 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Non-controlling participation	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)<0
1		2		3		4		5		6		7		8		9		10		11		12
Opening balance as at 1 January of the previous year	4001	17.191.466	4033		4065	22.843.084	4097	18.565.207	4129	6.826.518	4147		4165	10.425.898	4203	0	4241		4285	75.852.173	4291	
Effects of the first implementation of new IFRS - increase	4002		4034		4066		4098		4130		4148		4166		4204		4242					
Effects of the first implementation of new IFRS – decrease	4003		4035		4067		4099		4131		4149		4167		4205		4243					
Changes in accounting policies and correction of prior period error – increase	4004		4036		4068		4100		4132		4150		4168		4206		4244					
Changes in accounting policies and correction of prior period error – decrease	4005		4037		4069		4101		4133		4151		4169		4207		4245					
The adjusted opening balance as at 1 January of the previous year (No 1+2-3)	4006	17.191.466	4038	0	4070	22.843.084	4102	18.565.207	4134	6.826.518	4152	0	4170	10.425.898	4208	0	4246		4286	75.852.173		
Total positive other comprehensive income for the period									4135		4153				x		4247					
Total negative other comprehensive income for the period									4136	240.763	4154				x		4248					
Profit for the current year													4171	2.928.761	x		4249					
Loss for the current year															4209		4250					
Transfer from provisions to retained earnings due to provisions reversal – increase													4172		4210		4251					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4173		4211		4252					
Transactions with owners recognized directly in equity – increase	4007		4039		4071		4103						4174		4212		4253					
Transactions with owners recognized directly in equity – decrease	4008		4040		4072		4104						4175		4213		4254					
Distribution of profit – increase	4009		4041		4073		4105	3.582.000					4176		4214		4255					
Distribution of profit and/or coverage of losses – decrease	4010		4042		4074		4106						4177	3.582.000	4215		4256					
Dividend payments	4011		4043		4075		4107						4178	4.477.879	4216		4257					
Other – increase	4012		4044		4076		4108						4179	24.571	4217		4258					
Other – decrease	4013		4045		4077		4109						4180		4218		4259					
Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0	4014	0	4046	0	4078	0	4110	3.582.000					4181	0	4219	0	4260					
Total transactions with owners (No 11-12+13-14-15+16-17) < 0	4015	0	4047	0	4079	0	4111	0					4182	8.035.308	4220	0	4261					
Balance as at 31 December of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)	4016	17.191.466	4048	0	4080	22.843.084	4112	22.147.207	4137	6.585.755	4155	0	4183	5.319.351	4221	0	4262		4287	74.086.863	4293	
Opening balance as at 1 January of the current year	4017	17.191.466	4049		4081	22.843.084	4113	22.147.207	4138	6.585.755	4156	0	4184	5.319.351	4222	0	4263		4288	74.086.863	4294	
Effects of the first implementation of new IFRS - decrease	4018		4050		4082		4114		4139		4157		4185		4223		4264					
Effects of the first implementation of new IFRS - decrease	4019		4051		4083		4115		4140		4158	0	4186		4224		4265					
Changes in accounting policies and correction of prior period error – increase	4020		4052		4084		4116		4141		4159		4187		4225		4266					
Changes in accounting policies and correction of prior period error – decrease	4021		4053		4085		4117		4142		4160		4188		4226		4267					
Adjusted opening balance as at 1 January of the current year (No 21+22-23)	4022	17.191.466	4054	0	4086	22.843.084	4118	22.147.207	4143	6.585.755	4161	0	4189	5.319.351	4227	0	4268		4289	74.086.863	4295	
Total positive other comprehensive income for the period									4144		4162				x		4269					
Total negative other comprehensive income for the period									4145	22.881	4163				x		4270					
Profit for the current year													4190	196.438	x		4271					
Loss for the current year															4228		4272					
Transfer from provisions to retained earnings due to provisions reversal – increase													4191		4229		4273					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4192		4230		4274					
Transactions with owners recognized directly in equity – increase	4023		4055		4087		4119						4193		4231		4275					
Transactions with owners recognized directly in equity – decrease	4024		4056		4088		4120						4194		4232		4276					
Distribution of profit – increase	4025		4057		4089		4121						4195		4233		4277					
Distribution of profit and/or coverage of losses – decrease	4026		4058		4090		4122						4196		4234		4278					
Dividend payments	4027		4059		4091		4123						4197		4235		4279					
Other – increase	4028		4060		4092		4124						4198		4236		4280					
Other – decrease	4029		4061		4093		4125						4199		4237		4281					
Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0	4030	0	4062	0	4094	0	4126	0		0			4200	0	4238	0	4282					
Total transactions with owners (No 31-32+33-34-35+36- 37) < 0	4031	0	4063	0	4095	0	4127	0		0			4201	0	4239	0	4283					
Balance as at 31 March of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)	4032	17.191.466	4064	0	4096	22.843.084	4128	22.147.207	4146	6.582.874	4164	0	4202	5.515.789	4240	0	4284		4290	74.260.420	4296	

БЕОГРАД

NOTES

TO FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF 2021

Belgrade, May 2021

1. INCORPORATION AND OPERATION OF THE BANK

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

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

NLB d.d. Ljubljana	83.23%

The Bank has three subsidiaries with the following percentage holdings in their respective ownership:

- 100% - Komercijalna Banka AD Podgorica, Montenegro
- 100% - Company for managing UCITS fund KomBank INVEST AD, Serbia
- 99.99% - Komercijalna Banka AD Banja Luka, Bosnia and Herzegovina.

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

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

As at March 31st, 2021, the Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 6 business centers, three sectors for work with small and medium-sized enterprises, 1 branch and 203 sub-branches.

As of March 31st, 2021, the Bank had 2,661 employees, and as of 31 December 20120 it had 2,669 employees. Tax ID number of the Bank is 100001931.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Statement of Compliance

The Bank keeps books of accounts and prepares the financial statements in accordance with the applicable Law on Accounting of the Republic of Serbia (RS Official Gazette, 62/2013 and 30/2018), the Law on Banks (RS Official Gazette, numbers 107/2005, 91/2010 and 14/2015) and other relevant by-laws of the National Bank of Serbia, as well as other applicable legal regulations in the Republic of Serbia.

Pursuant to the Law on Accounting, legal entities and entrepreneurs in the Republic of Serbia prepare and present the financial statements in accordance with legal, professional and internal regulations. Professional regulations involve the applicable Framework for preparation and presentation of financial statements ("Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and interpretations that are an integral part of the standards, or the text of applicable IAS and IFRS which does not include the bases for conclusions, illustrative examples, guidelines, comments, contrary opinions, worked-out examples and other supplementary material.

By implemented IFRS 9 standard, legal regulations of the NBS have been amended, which complied the banks to apply to new forms of financial statements in effect as of the 1st of January 2018. These changes were applied when preparing and presenting the financial statements of the Bank as of January 1, 2018.

The Bank implemented the new IFRS 16 from the date of its coming into effect on 01 January 2019 and adjusted the Accounting policies that are adopted by the Board of Directors of the parent Bank in June 2019.

New Accounting policies in relation to previous ones, in addition to performed supplements to the requirements of the accounting standard IFRS 16 – Leases, contain also supplements that specify the fees which make an integral part of EIR and method of accrual of fees, in compliance with the requirements of IFRS 9.

International Financial Reporting Standard 16 Leasing is in force for annual periods that start on the day or after 01 January 2019. IFRS 16 defines the principles for recognition, measurement, presentation and disclosure of leasing for both contractual parties, and/or for the leaseholder /lessee and leasing provider/lessor and it requires from the leaseholders to calculate all the leases within one balance sheet model similar to accounting for financial leasing in accordance with IAS 17. Standard includes two exemptions from recognition for leaseholders – lease of “low-value assets” and short-term leases (that is, the leases with the lease term of 12 months or less). The Bank opted for using the exemptions that are enabled by the standard.

The Bank made a transition in line with the modified retrospective approach. Comparative data from the previous year have not been corrected.

At drawing-up quarterly financial statements for 2020, the Bank applied new accounting policies to the part referring to financial instruments and possibility of allocation of credit losses for all accounting periods which record benefits from assets, which is a prerequisite for determining an accurate result.

The Bank prepares and presents regular financial statements for the current business year ending on 31st December of the current year as well as reports in a shorter period for its needs, at the request of the Bank’s competent body or competent state authorities.

The enclosed financial statements are prepared in the format prescribed by the Rulebook on the content, form and manner of publishing annual, semi-annual and the quarterly financial statements of the public companies (RS Official Gazette no. 12/2015, 5/2015 and 24/2017) on the basis of which public companies and certain companies related with them present information to the Securities Commission in conformity with the Law on Capital Market (RS Official Gazette, number 31/2011, 112/2015 and 108/2016). The prescribed set of quarterly financial statements includes: Balance Sheet, Income statement, Statement of Other Comprehensive Income, Cash Flow Statement, Statement of Changes in Equity, and Notes to Quarterly Financial Statements.

2.2. Rules of assessment of financial instruments

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

IFRS 16 regulates that on the day of start of the lease, the leaseholder recognizes the obligation for payment of leasing (that is, the obligation for leasing) and the asset that represents the right to use the subject asset during the lease term (i.e. the right to use the asset). The leaseholders are required to separately recognize the cost of interest on leasing liability and the costs of depreciation arising from the right to use the asset.

Subsequent valuation of lease asset and liability:

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

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

Subsequently, recognized purchase value is reduced by:

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

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

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

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

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

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

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

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

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

2.2.1. Financial assets

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

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

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

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

Financial assets may be classified into the following categories:

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

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

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

2.2.2. Financial liabilities

Financial liability is any contracted liability of the Bank:

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

2.3. Functional and Reporting Currency

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

3. STRUCTURE OF BALANCE SHEET AND INCOME STATEMENT, OVERVIEW OF SIGNIFICANT ACCOUNTING POLICIES AND KEY ACCOUNTING ASSESSMENTS AND ASSUMPTIONS

BALANCE SHEET

The structure of the Bank's balance sheet as of March 31st, 2021, with comparative data for 2020, prepared in the format prescribed by the Decision on Forms and the Contents of Items in the Forms for Financial Statements of Banks (RS Official Gazette 101/2017, 38/2018 and 103/2018), apples from 1st January 2018 and can be seen in more detail from the following overview:

In thousand RSD

	31.03.2021		31.12.2020	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	80,223,934	17.25	80,045,107	17.42
Securities	141,482,886	30.42	153,776,323	33.47
Loans and receivables due from banks and other financial organizations	35,847,651	7.71	18,142,070	3.95
Loans and receivables from customers	189,240,028	40.69	189,296,089	41.20
Investments in subsidiaries	3,433,697	0.74	3,433,697	0.75
Intangible assets	450,905	0.10	510,669	0.11
Property, plant and equipment	5,943,024	1.28	6,045,330	1.32
Investment property	1,809,902	0.39	1,819,507	0.40
Current tax assets	15,574	-	12,237	-
Deferred tax assets	856,133	0.18	-	-
Non-current assets held for sale and assets from discontinued operations	130,426	0.03	130,426	0.03
Other assets	5,626,115	1.21	6,216,268	1.35
TOTAL ASSETS	**465,060,275**	**100.00**	**459,427,723**	**100.00**

LIABILITIES	Amount	%	Amount	%
Deposits and other financial liabilities to banks, other financial organizations and the Central Bank	3,222,836	0.69	4,989,315	1.09
Deposits and other financial liabilities to other customers	379,055,170	81.51	372,699,401	81.12
Provisions	2,593,367	0.56	2,529,268	0.55
Deferred tax liabilities	985,885	0.21	147,400	0.03
Other liabilities	4,942,597	1.06	4,975,476	1.08
Total liabilities	**390,799,855**	**84.03**	**385,340,860**	**83.87**
Capital				
Share capital	40,034,550	8.61	40,034,550	8.71
Profit	5,515,789	1.19	5,319,351	1.16
Reserves	28,710,081	6.17	28,732,962	6.25
Total capital	**74,260,420**	**15.97**	**74,086,863**	**16.13**
TOTAL LIABILITIES	**465,060,275**	**100.00**	**459,427,723**	**100.00**

INCOME STATEMENT

Income and expense structure for 2021 as follows:

In thousand RSD

	31.03.2021	31.03.2020
INCOME	Total	Total
Interest income	3,218,653	3,326,801
Interest expenses	(266,680)	(286,698)
Net interest income	**2,951,973**	**3,040,103**
Fee and commission income	1,620,557	1,637,652
Fee and commission expenses	(414,448)	(438,437)
Net fee and commission income	**1,206,109**	**1,199,215**
Net gain from changes in fair value of financial instruments	52,635	-
Net loss from the change in the fair value of financial instruments	-	(29,768)
Net gain based on derecognition of financial instruments that are measured at fair value	107,088	76,242
Net income from exchange differentials and the effects of agreed currency clause	11,505	-
Net expense from exchange differentials and the effects of agreed currency clause	-	(17,155)
Net income from reduced impairment of financial assets that are not measured at fair value through P&L	-	5,962
Net expense from impairment of financial assets that are not measured at fair value through P&L	(1,252,837)	
Other operating income	63,401	86,310
Total net operating income	**3,139,874**	**4,360,909**
Cost of salaries, allowances and other personnel expenses	(1,178,238)	(1,110,357)
Depreciation cost	(240,943)	(246,304)
Other income	67,353	670,475
Other expenses	(1,605,218)	(1,406,584)

Profit /loss before tax	**182,828**	**2,268,139**
Profit from deferred tax	**13,610**	**-**
Loss from deferred tax	**-**	**-**
Result for the period (profit /loss)	**196,438**	**2,268,139**

CASH FLOW STATEMENT

Cash flows achieved in 2021 are shown in the table below:

In thousand RSD

	31.03.2021.	31.03.2020
Item	Total	Total
Cash inflows from operating activities	**7,725,289**	**7,017,130**
Inflow from interest	5,772,626	5,197,420
Inflow from fees	1,631,264	1,680,824
Inflow from other operating activities	321,038	136,866
Inflow from dividends and share in profit	361	2,020
Cash outflows from operating activities	**(2,857,397)**	**(2,616,517)**
Outflow from interest payments	(289,344)	(212,287)
Outflow from fee payments	(413,908)	(435,062)
Outflows from payments for gross salaries, allowances and other personnel expenses	(764,181)	(763,077)
Outflow from taxes, contributions and other duties charged to expense	(173,331)	(167,362)
Outflows for other operating expenses	(1,216,633)	(1,038,729)
Net cash inflow from operating activities before increase or decrease in financial assets and financial liabilities	**4,867,892**	**4,400,613**
Decrease in financial assets and increase in financial liabilities	**(6,020,675)**	**(8,237,459)**
Decrease in receivables from securities and other financial assets not intended for investment	(1,831,960)	(2,845,257)
Increase in deposits and other financial liabilities towards banks and other financial organizations, central bank and customers	(4,188,715)	(5,392,202)
Increase in financial assets and decrease in financial liabilities	**6,686,686**	**4,843,699**
Increase in loans and receivables from banks, other financial organizations, central bank and customers	6,686,686	4,843,699

Item	31.03.2021 Total	31.03.2020 Total
Net inflow of cash from operating activities before profit tax	**4,201,881**	**7,794,373**
Net outflow of cash from operating activities before profit tax	**-**	**-**
Paid profit tax	3,337	**-**
Paid dividends	6,801	**-**
Net inflow of cash from operating activities	**4,191,743**	**7,794,373**
Net outflow of cash from operating activities	**-**	**-**
Cash inflow from investment activities	**8,461,636**	**6,668,200**
Inflow from investment securities	8,461,636	6,668,200
Cash outflow from investment activities	**(40,770)**	**(16,461,159)**
Outflow from investing in investment securities	(1,371)	(16,386,529)
Outflow for purchase of intangible assets, property, plants and equipment	(39,399)	(74,630)
Net inflow of cash from investment activities	**8,420,866**	**-**
Net outflow of cash from investment activities	**-**	**(9,792,959)**
Cash inflow from financing activity	**99,682,124**	**39,577,371**
Inflow from borrowings	99,682,124	39,577,371
Cash outflow from financing activity	**(99,707,578)**	**(39,328,803)**
Outflow of cash from borrowings	(99,597,046)	(39,221,015)
Other outflows from financing activity	(110,532)	(107,788)
Net inflow of cash from financing activity	**-**	**248,568**
Net outflow of cash from financing activity	**(25,454)**	**-**
Total cash inflow	**121,889,724**	**61,500,160**
Total cash outflow	**(109,302,569)**	**(63,250,178)**
Net increase in cash	**12,587,155**	**-**
Net decrease in cash	**-**	**(1,750,018)**
Cash and cash equivalents at the start of the year	**51,637,298**	**40,866,651**
Exchange rate gains	256,437	202,127
Exchange rate loss	(233,491)	(86,985)
End of period cash and cash equivalents	**64,247,399**	**39,231,775**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

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

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

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

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

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

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

Net interest income in the period January – March 2020 amounts to RSD 2,951,973 thousand and is lower by RSD 88,130 thousand or 2.90% compared to the same period last year.

Realized net interest income is higher compared to the planned values from the Business plan for the first three months of 2021 by 17,129 thousand dinars.

3.2. Fee and Commission Income and Expenses

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

Income from fees for banking services and expenses based on fees and commissions are established at the time when they are due for collection or when paid. They are recognized in the income statement at the time when they incur and/or when due for collection.

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

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

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

Net fee and commission income in the period January – March 2021 amounts to RSD 1,206,109 thousand and is higher compared to the same period 2020 by 0.57% or RSD 6,894 thousand.

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

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

In the observed period in 2021 the Bank reported net profit on the basis of the change in the fair value of financial instruments held for trading in the amount of RSD 52,635 thousand (bonds of the Republic of Serbia and investment units of Kombank money fund).

When derecognizing the securities at fair value through other comprehensive income with recognition through income statement (sale or permanent decrease in the value), corresponding amounts of the previously formed revaluation reserves are shown in the income statement as gains or losses based on the derecognition, whereas when derecognizing the securities at fair value through income statement the previously formed amounts that relate to the change in the value are also recognized in the income statement as gains or loss from derecognition.

On the basis of derecognition of financial instruments that are measured at fair value through income statement and other comprehensive income net gains from sale were recorded in the amount of RSD 107,088 thousand (bonds and T-bills of the Republic of Serbia).

Gains/losses based on the agreed currency clause and changes in the exchange rate of securities, and interest income from securities, except for securities at fair value through the income statement, are presented in the income statement.

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

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

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

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

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

Net income from exchange rate differentials in the reporting period January – March 2021 amount to RSD 11,505 thousand. The stated net expense is mainly under direct impact of movement of RSD exchange rate against currency basket (currencies EUR, USD and CHF) between the two observed reporting periods as a form of protection against risk and management of the Bank's FX position – balanced FX position.

Assumed and contingent liabilities in foreign currency were re-stated in dinars at middle exchange rate on the inter-bank FX market applicable as at the balance sheet date.

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

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

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

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

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

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

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

In the period January – March 2021 the Bank recorded the net expense from reduction of impairment of financial assets and credit risk-bearing off-balance sheet items not measured at fair value through income statement in amount of RSD 1,252,837 thousand, while in the same period of 2020 net income on this basis totaled RSD 5,962 thousand. The change in the level of net expenses resulted mostly from the application of new haircuts for collaterals, which are higher than the previous ones.

In the current reporting period 2021, the most significant effects are presented below.

Net negative effect of group and individual calculation of impairment provisions for loans, other receivables and off-balance sheet items in the period January – March 2021 amounted to RSD 1,533,994 thousand.

Net income based on reduction of debt securities measured at fair value through other comprehensive income amounts to RSD 25,207 thousand in the first quarter of 2021.

The positive effect relates to the collection of written-off receivables in the amount of 255,950 thousand dinars. Of the total amount of collected written-off receivables, the bulk relates to the collection of loans to legal entities in the amount of 213,940 thousand dinars.

3.6. Other operating income

In the overall other operating income amounting to RSD 63,401 thousand the most considerable share of 99.19% represents income from operating activities (the same period last year 96.66%), which mostly relate to income realized from lease of property amounting to RSD 42,268 thousand. Other operating income is realized from reimbursement of expenses based on: court and utility costs, income from collected expenses of official mobile phones as per authorization of the employees, as well as income from the use of company vehicles for private purposes.

Income from dividends is part of the item Other Operating Income. Dividends received from investment in shares of other legal entities in the amount of RSD 516 thousand are shown as income from dividends at the moment of their collection. The total amount of collected dividends of RSD 516 thousand relates to the received dividend from MasterCard USA.

3.7. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 1,178,238 thousand are higher by RSD 67,881 thousand or 6.11% against the same period last year.

3.8. Depreciation Costs

Depreciation costs amounting to RSD 240,943 thousand are lower than in period January – March 2020 by RSD 5,361 thousand or 2.18%.

3.9. Other Income

In total other income in the amount of RSD 67,353 thousand the most significant share of 38.91% is that of the release of unused provisions for court disputes in the amount of RSD 26,205 thousand (reference note 3.18.). Other income has a share of 61.09%, and/or RSD 41,148 thousand, of which amount the most important item relates to income generated by interest from previous years, which was collected from corporate clients, entrepreneurs and retail customers in a total amount of RSD 24,320 thousand.

3.10. Other Expenses

Other expenses are stated in the amount of RSD 1,605,218 thousand and are higher compared to the same period last year by RSD 198,634 thousand or 14.12%. Other expenses comprise:

a) operating expenses amounting to RSD 1,283,436 thousand,
b) cost of provisions for court proceedings liabilities amounting to RSD 229,309 thousand,
c) loss from decommissioning and writing off fixed assets and intangible assets in the amount of RSD 10, 352 thousand
d) Other expenses amounting to RSD 82,181 thousand.

The following items account for the largest share of other expenses:

a) Operating expenses in the total amount of RSD 1,283,436 thousand, namely:

intangible costs totaling RSD 629,746 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 394,703 thousand. The structure of other expenses in the operating expenses item consists of the following: cost of security property security in the amount of RSD 63,723 thousand, costs for managing and maintaining the ATMs in the amount of RSD 60,732 thousand, cost of lawyers' services in the amount of RSD 60,302 thousand, costs of maintenance of IT equipment and software amounting to RSD 54,013 thousand, cost of managing and maintaining the POS network and other payment card equipment in the amount of RSD 42,134 thousand, cost of advertising in Serbia in the amount of RSD 35,867 thousand, cost of electricity in the amount of RSD 33,637 thousand, cost of sms service in the amount of RSD 32,026 thousand, cost of current maintenance of the business premises and other equipment in the amount of RSD 22,773 thousand, signage display fee RSD 21,100 thousand, cost of cash in transit RSD 20,654 thousand, cost of materials RSD 72,747 thousand, cost of tax 43,047 thousand, cost of contributions RSD 179,547 thousand and other expenses in the amount of RSD 5,041 thousand..

Operating expenses of the current period are higher compared to the same period last year by RSD 92,064 thousand (mostly resulting from higher cost of lawyers' services).

b) Costs of provisions for court liabilities in the amount of RSD 229,309 thousand relate to increase of provisions for Bank's court liabilities in 2021 (reference Note 3.18.),

c) loss from decommissioning and writing-off the fixed assets and intangible assets in the amount of RSD 10,352 thousand in accordance with the report of the competent commission and the decision of the Bank's body,

d) Other expenses in the amount of RSD 251,092 thousand.

Out of total amount of other expenses for period January – March 2021 in amount *of* RSD *82,181* thousand the largest part relates to costs of the insurance policies for receivables of the loan users in the amount of RSD 49,866 thousand. Other expenses on this basis in the same period of 2020 amounted to RSD 56,931 thousand.

Compared to the same period 2020, other expenses are higher by RSD 4,333 thousand principally as a result, on one side, the decrease in the cost related to the insurance policy for the receivables from the borrowers (a decrease of RSD 7,065 thousand) and decrease in other expenses (decrease of RSD 5,670 thousand) and, on the other hand, an increase in expenses from lost court cases (an increase of RSD 11,587 thousand), increase in the cost of forced collection (increase of RSD 7,958 thousand), other expenses related to interest for court cases from the previous years (increase of RSD 3,546 thousand) and an increase in the cost of insurance of the users of the account sets (increase of RSD 1,275 thousand).

3.11. Profit/loss from deferred tax

As of 31.03.2021 the Bank posted in the income statement a net profit from the effect of deferred tax in the amount of 13,610 thousand dinars.

BALANCE SHEET

Overall balance sheet total as of 31.03.2021 amounts to RSD 465,060,275 thousand, and represents an increase by RSD 5,632,552 thousand or 1.23% against 31.12.2020.

ASSETS

The dominant share in the total assets of the Bank is that of the loans and deposits to customers and banks of 48.40% (2020: 45.15%), securities with a share of 30.42% (2020: 33.47%), cash and funds with the central bank with a share of 17.25% (2020: 17.42%), other assets with a share of 1.28% (2020: 1.32%), property, plant and equipment with a share of 1.21% (2020: 1.35%) and investment in subsidiaries 0.74% (2020: 0.75%).

3.12. Cash and Funds with the Central Bank

Cash and balances with the central bank as at 31.03.2021 amount to RSD 80,223,934 thousand, and account for 17.25% of Bank's total assets (17.42% as at 31.12.2020). Compared to 31.12.2020, the position is higher by RSD 178,827 thousand.

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

3.13. Securities

Investments in securities in the amount of RSD 141,482,886 thousand represent a percentage of share of 30.42% in relation to total assets (2020: 33.47%) and comprise of securities that are measured at fair value through profit and loss in the amount of RSD 6,541,148 thousand and securities measured at fair value through other comprehensive income in the amount of RSD 134,099,498 thousand and securities measured at amortized value in the amount of 842,240 thousand dinars.

Decrease of investing in securities is realized compared to 2020 by RSD 12,293,437 thousand, or 7.99%. Realized decrease of RSD 12,293,437 thousand is the result of a decrease in the securities measured at fair value through other comprehensive income of RSD 10,526,479 thousand, as well as a decrease in securities measured at fair value through income statement of RSD 1,766,958 thousand.

The largest share in the securities structure in RSD is that of the Republic of Serbia bonds (97.26%), T-bills of the Republic of Serbia (1.16%), corporate bonds of state-owned enterprises (0.98%) and investment units of KomBank Money Fund, Beograd (0.60%). Regarding securities in foreign currency, these are made up of the Republic of Serbia bonds (93.74%), bonds based on earlier FX savings (0.61%), and bonds of foreign banks and states (5.65%).

3.14. Loans and Receivables from Banks and Other Financial Organizations and Loans and Receivables from Customers

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

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

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

As at 31.03.2021, the loans and receivables from banks and other financial organizations amount to RSD 35,847,651 thousand with percentage of share of 7.71% of total assets (2020: 18,142,070 thousand dinars) and are higher by RSD 17,705,581 thousand. An increase compared to 31.12.2020 is mostly the result of an increase in: regular FX current accounts abroad of 9,475,102 thousand dinars, short-term lending to other banks (overnight) in dinars of RSD 3,800,000 thousand, short-term fixed assets in foreign banks (overnight) in a foreign currency of 2,560,891 thousand dinars, fixed-term funds in foreign banks in a foreign currency of 2,176,131 thousand dinars and investment of to NBS regarding repo transactions in dinars of 2,037,040 thousand dinars.

Loans and receivables from customers as at 31.03.2021 amount to RSD 189,240,028 thousand and with percentage of share of 40.69% of total assets (2020: 189,296,089 thousand dinars) have dominant share in structure of assets. Total loans to customers are lower by 0.03% against 2020, and/or 56,061 thousand dinars, as the result of a decrease in lending due to early and regular repayments and the net effect of the allocation and recognition of impairments.

In the period January – March 2021, in accordance with the NBS Decision on accounting write-off of balance-sheet assets of banks, the Bank did a permanent write-off by transferring the balance-sheet assets to off-balance-sheet records in the amount of RSD 44,655 thousand. The permanent write-off did not result in a decrease in balance-sheet assets, given that the write-off was done for the receivables that had been 100% impaired i.e. in full gross amount of carrying value. According to the NBS decision, balance-sheet assets include NPLs that fit the description in the Decision on the classification of balance-sheet assets and off-balance-sheet items.

3.15. Investment in Subsidiaries

Investments in subsidiaries are RSD 3,433,697 thousand and account for 0.74% of total assets.
The ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with subsidiaries, as a part of regular operations. These include primarily loans and deposits.

Investments in subsidiaries as of 31.03.2021 amount to RSD **5.480.888 thousand** (gross amount excluding impairment provision) individually per members:

	In **thousand RSD**
KomBank Invest a.d. Beograd	140,000
Komercijalna Banka a.d. Banja Luka	2,974,615
Komercijalna Banka a.d., Podgorica	2,366,273
TOTAL GROSS	**5,480,888**
Impairment provision	(2,047,191)
NET	**3,433,697**

As of 31.03.2021, net value of the share in the subsidiaries equals RSD 3,433,697 thousand, and has not changed against the amount shown as at 31.12.2020.

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

All of the above items account for 3.19% of total assets, of which the highest percentage relates to property, plant and equipment in the amount of 1.28%, other assets in the amount of 1.21% and investment property in the amount of 0.39%.

Investments in equity of banks, foreign and local legal entities as of 31.03.2021 amount to RSD 2,139,069 thousand measured at fair value through other comprehensive income. The largest amount refers to the share in the equity of foreign entities of RSD 2,022,415 thousand, and these are the shares in the companies MASTER Card International and VISA INC.

Compared to 31.12.2020 (balance-sheet date) when deferred tax assets are reconciled with deferred tax liabilities, during the business year the deferred tax assets and deferred tax liabilities are mostly shown using the gross principle in the anticipated items within the assets and liabilities. As of 31.03.2021 deferred tax assets in the amount of RSD 856,133 thousand are shown in the assets of the balance-sheet, while deferred tax liabilities in the amount of RSD 985,885 thousand are shown in the balance-sheet liabilities.

Deferred tax assets as of 31.03.2021 mostly consist of deferred tax assets from temporarily unrecognized expenses from impairment of assets of RSD 342,947 thousand and from provisioning for court cases of RSD 269,705 thousand dinars. Deferred tax assets from tax losses carried forward were cancelled in the total amount, on the basis of an estimate that in the tax balance of the current year there will not be a sufficient taxable profit which the deferred tax assets could be used for.

The set deadline for the use of tax losses carried forward is 5 years from when they were generated, so the deadline for their use is the year 2021.

Deferred tax assets based on
tax losses carried forward

In RSD thousand

Year	Increase (creation)	Decrease (use)	Balance
2017.	1,235,813	(368,667)	867,146
2018.	641,193	(630,339)	878,000
2019.	1,107,438	(726,088)	1,259,350
2020.	1.654	(1.261.004)	0
31.03.21.	-	-	0

On the basis of filed tax return and tax balance for 2019, the Bank pays profit tax in advance, until it files the tax balance for 2020. After it files the tax balance for 2020 (the deadline for filing is 29.06.2021), given that for 2020 the Bank is not obliged to pay profit tax, due to the coverage by tax losses carried forward, the advance payments will be used for the following periods or a request will be made for their refund.

Until 31.03.2021, the Bank paid RSD 15,574 thousand in advance.

LIABILITIES

In period January – March 2021, in the structure of liabilities deposits and other financial liabilities to banks and customers still have a dominant share with total percentage of 82.02% (2020: 82.21%) in total liabilities. The share of capital in total liabilities stands at 15.97% (2020: 16.13%).

Other positions make for 1.83% of total liabilities which mainly refers to other liabilities with the percentage of 1.06%.

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

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

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

The most important share in the structure of liabilities is that of the deposits and other financial liabilities to customers in the amount of RSD 379,055,170 thousand, which make for 81.51% of total liabilities (2020: 81.12%) and deposits and other financial liabilities towards banks, other financial organizations and the central bank in the amount of RSD 3,222,836 thousand with share of 0.69% (2020: 1.09%).

Total deposits to customers, banks, other financial organizations and central bank amounted to RSD 382,278,006 thousand and compared to 2020 they are higher by RSD 4,589,290 thousand: transaction deposits are higher by RSD 502,158 thousand, while other deposits recorded a growth amounting to RSD 4,087,132 thousand.

Net increase in transaction deposits was the result of a decrease in dinar transaction deposits in the amount of RSD 1,096,816 thousand while, on the other hand, transaction deposits in foreign currency recorded an increase of RSD 1,598,974 thousand compared to 31.12.2020. In structure of transaction deposits still prevailing are the deposits in local currency with a share of 67.89%, while the remaining 32.11% relate to deposits in foreign currency.

Net increase in other deposits is the result, on the one hand of the decrease in other deposits in dinars in the amount of RSD 1,695,926 thousand, while, on the other hand, the other deposits in a foreign currency recorded an increase of RSD 5,783,058 thousand.

In the case of other deposits, deposits in foreign currency are dominant with a share of 89.53% while dinar deposits have a share of 10.47%. Foreign currency savings increased by approximately EUR 48.60 million.

Borrowings

Borrowings, as part of the deposit and other liabilities towards banks and other customers' position, amounted to RSD 962,331 thousand with a percentage of shares in the total liabilities of 0.21% and they relate to received credit lines in foreign currency. The total position is lower in relation to 2020 by RSD 14,894 thousand mostly as a result of regular and early repayments of foreign credit lines in foreign currency, as follows:

- EIB in the amount of EUR 111,1 thousand, and
- Government of the Republic of Italy in the amount of EUR 12 thousand and
- EAR in the amount of EUR 4 thousand.

As of 31.03.2021, the most considerable share in the structure of received loans relates to obligation towards the:

- European Investment Bank (EIB) with percentage of share of 99.48%

Other credit lines have a share of 0.52% and they are composed of:

- Government of the Republic of Italy
- European Agency for Reconstruction and Development (EAR)

3.18. Provisions

Provisions in the amount of RSD 2,593,367 thousand consist of the provisions for:

- covering of potential liabilities (litigations) in the amount of RSD 1,798,036 thousand,
- long-term employee earnings in the amount of RSD 597,505 thousand, and
- provisions for losses on off-balance sheet assets in the amount of RSD 197,826 thousand.

In the observed period, compare increase decrease of the provisions on the basis of court disputes by RSD 90,735 thousand, on one hand and impairment allowance for losses from off-balance-sheet assets in the amount of 26,816 thousand dinars and a decrease in provisioning for losses from off-balance-sheet assets in the amount of RSD 26,636 thousand, on another.

Provisions for court disputes

Recognition of the provisions was made on the basis of estimation of future outflows in the amount of claims, including interest and expenses.

For sixteen thousand nine hundred and four as of 31.03.2021, total provisions amount to RSD 1,798,036 thousand.

Compared to 31.12.2020 there was a change in the total level of provisions in the net amount of RSD 90,735 thousand. Out of this amount, the change relating to the net cost of provisioning for court cases is RSD 229,309 thousand, recognized within the positions of the profit and loss account (reference Notes 3. 9 and 3. 10) while the decrease in the provisions in the amount of RSD 138,574 thousand refers to the use of the provisions for making payments and release of provisions as per final judgments. Increase of the provisions is the result of additional calculation of interest and exchange rate differences for the existing disputes and allocation of new provisions for 3,588 new cases.

3.19. Deferred tax liabilities

As of 31.03.2021 deferred tax liabilities are presented in gross terms in the amount of 985,885 thousand dinars, mostly composed of the deferred tax liabilities for the revaluation of securities, in the amount of RSD 965,552.

3.20. Other liabilities

Other liabilities amount to RSD 4,942,597 thousand and compared to 2020 they are lower by RSD 32,879 thousand. The percentage of share of other liabilities in total liabilities is 1.06% (2020: 1.08%). The most important positions of other liabilities are: liabilities for the calculation in dinars in the amount of RSD 1,019,588 thousand, liabilities in the calculation in foreign currency in the amount of RSD 800,662 thousand, liabilities for leasing in the amount of RSD 779,129 thousand, factored in liabilities for personnel expenses in the amount of RSD 444,685 thousand, liabilities for net salaries charged against the expenses in the amount of RSD 292,499 thousand and liabilities for subscription for retail loans in RSD in the amount of RSD 269,618 thousand.

3.21. Capital

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

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

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

As of 31.03.2021 the Bank's capital consists of:

In thousand RSD	2021	2019
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from the profit	22,147,207	22,147,207
Revaluation reserves	2,781,033	2,722,291
Profit/loss from changes in the value of debt and equity instruments	3,666,619	3,748,242
Actuarial gains	115,222	115,222
Reserves	28,710,081	28,732,962
Accumulated profit	5,319,351	2,390,590
Profit	196,438	2,928,761
Balance as at date	**74,260,420**	**74,086,863**

Based on the Decision of the Securities Commission of 17 March 2011, the Bank substituted the shares (and/or a stock split) of the nominal value of 10.000,00 Dinars with the shares of a nominal value of 1.000,00 Dinars.

The shares were substituted in order to increase the liquidity of the securities and make them more easily accessible to a broader circle of small investors.

The capital adequacy ratio of the Bank as of March 31st, 2021, calculated on the basis of the financial statements, equals 29.96% having implemented the applicable decisions of the National Bank of Serbia for 2019.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 31.03.2021 the pecuniary part of capital is above the prescribed level.

The structure of the share capital – ordinary shares as at 31.03.2021 is as follows:

Name of shareholder	% of share
NLB d.d. Ljubljana	83.23
OTP BANKA SRBIJA (custody account)	2.94
BDD M&V INVESTMENTS AD BEOGRAD	2.10
Jugobanka a.d., Beograd u stečaju	1.91
Kompanija Dunav osiguranje a.d., Beograd	1.73
GLOBAL MACRO ABSOLUTE RETURN A	0.79
GLOBAL MACRO CAPITAL OPPORTUNITIES	0.78
Stankom co. d.o.o., Beograd	0.70
GLOBAL MACRO PORTFOLIO	0.50
FRONT MARK OPPORTUN.MASTER	0.41
DEKA INŽENjERING DOO BEOGRAD	0.39
I.N. DRENIK NONWOVENS TRADING	0.35
TEZORO BROKER AD	0.34
BDD M&V INVESTMENTS AD BEOGRAD (joint account)	0.25
Other	3.58
	100.00

During February 2021 NLB d.d. Ljubljana submitted a public offer on the intention to acquire `6.7&% of ordinary shares, at the price at which NLB d.d. Ljubljana acquired the controlling stake from the Republic of Serbia. Also, the offer related to the acquisition of 100% of preferred shares. The price for preferred shares was defined on the basis of the average weighted price of this type of shares in the past six months.

On the day closing the offer, April 9th, 2021, NLB d.d. Ljubljana became the owner of 87.998% of voting shares and 15.377% of preferred shares.

4. RELATIONS WITH SUBSIDIARIES

RECEIVABLES FROM AND LIABILITIES TO SUBSIDIARIES

Balance as of 31.03.2021

RECEIVABLES

In thousand RSD

Subsidiaries	Advances and loans	Interest and fees	Other assets	Impairment provision	Net	Off-Balance	Total
1. Kom.banka AD Podgorica	535,843	843	3,756	381	540,061	1,763,702	2,303,763
2. Kom. Banka AD Banja Luka	291,757	25	1,175	200	292,757	2,351,602	2,644,359
TOTAL:	**827,600**	**868**	**4,931**	**581**	**832,818**	**4,115,304**	**4,948,122**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interest and fees	Other liabilities	Total
1. Kom.banka AD Podgorica	920,999	-	-	920,999
2. Kom. Banka AD Banja Luka	322,790	-	-	322,790
3. Kombank INVEST	123	-	-	123
TOTAL:	**1,243,912**	**-**	**-**	**1,243,912**

INCOME AND EXPENSES for period 01.01. – 31.03.2021

In thousand RSD

Subsidiaries	Interest income	Fee and commission income and other income	Interest expenses	Fee and commissi on expenses	Net income / expenses
1. Kom.banka AD Podgorica	2,806	550	(280)	-	3,076
2. Kom. Banka AD Banja Luka	1,287	804	-	(127)	1,964
3. Kombank INVEST	-	395	-	-	395
TOTAL:	**4,093**	**1,749**	**(280)**	**(127)**	**5,435**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange loss in the amount of RSD 40,280 thousand.

Balance as of 31.12.2020

RECEIVABLES

In thousand RSD

Subsidiaries	Advances and loans	Interest and fees	Other assets	Impairment provision	Net o	Off-balance	Total
1. Kom.banka AD Podgorica	535,833	871	960	379	537,285	1,763,703	2,300,988
2. Kom. Banka AD Banja Luka	305,569	25	284	208	305,670	2,939,505	3,245,175
3. Kombank INVEST	-	251	-	-	251	200	451
TOTAL:	**841,402**	**1,147**	**1,244**	**587**	**843,206**	**4,703,408**	**5,546,614**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interest and fee	Other liabilities	Total
1. Kom.banka AD Podgorica	1,031,864	-	-	1,031,864
2. Kom. Banka AD Banja Luka	223,493	-	-	223,493
3. Kombank INVEST	228	-	-	228
TOTAL:	**1,255,585**	**-**	**-**	**1,255,585**

INCOME AND EXPENSES for period 01.01 – 30.09.2020

In thousand RSD

Subsidiaries	Interest income	Fee and commission income	Interest expenses	Fee and commissi on expenses	Net income / expenses
1. Kom.banka AD Podgorica	57	915	(464)	-	508
2. Kom. Banka AD Banja Luka	376	394	-	(21)	749
3. Kombank INVEST	-	585	-	-	585
TOTAL:	**433**	**1,894**	**(464)**	**(21)**	**1,842**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange loss in the amount of RSD 6,556 thousand.

5. RISK MANAGEMENT

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

The Bank has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Bank is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment. Since the Bank became a member of the NLB Group at the end of the year, in the following period, additional adjustments will be made to the risk management system with the risk management system of the banking Group. The process of strategic risk management acts harmonization with the corresponding acts of NLB Group was performed during Q1 2021 (risk appetite – statement, internal limits system, fair value methodology, risk management strategy and policies for managing of individual risks, internal ratings system, etc.).

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

With Risk Management Strategy the Bank has set the following key objectives within the risk management: regular identification, assessment and consideration of risks within ICAAP and ILAAP processes; management, monitoring, control and reporting on risks that the Bank is exposed to; definition of limits in the Bank's risk appetite and their inclusion in risk management strategy, ICAAP, ILAAP, Recovery plan and business strategy; continuous development and improvement of risk management models and methodologies, including stress testing and early warning system (EWS); assessment and measurement of individual risks; establishment of appropriate decision making system; management of restructuring and resolution of disputed claims activities in a professional and efficient manner.

Following the need to harmonize risk management process and system with the corresponding systems, processes and practices of the parent Bank NLB dd, including the need for continuous improvement of the risk management process, recommendations of the external auditor, as well as the newly-formed situation caused by the COVID-19 virus pandemic, the Bank performed adequate changes in the risk management internal acts during the first quarter of 2021.

Risk Management System

At the end of 2020, the Bank became a member of the NLB dd, Ljubljana banking Group, and in accordance with that during the first quarter of 2021, it was harmonized the risk management system, in a major part, with the banking group standards.

The risk management system is defined by the following acts:

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

The Bank's Risk Appetite Framework – Statement defines the basic principles of managing the Bank's risk appetite, as well the set of indicators which best represent the Bank's exposure toward the materially significant risks (credit risk, liquidity risk, interest rate risk, foreign currency risk, operational risk, as well as capital adequacy). The Risk Appetite Framework – Statement defines the set of limits and targets for the mentioned risk exposure indicators.
The Bank's risk appetite is harmonized with the risk appetite of NLB dd, except for the part of Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) whose harmonization shall be finalized until June 30, 2021, in accordance with the defined plan.

Risk Management Strategy defines the key risks to which the Bank is or may be exposed to, as well the basic principles of identification, monitoring, measurement, control and management of these risks, along with the propensity to risks (risk appetite). Risk Management Strategy establishes the comprehensive and realiable risk management system, which is included in all of the Bank's activities and which ensures that the risk appetite and profile always remain aligned with the defined propensity to risks. Risk management system is proportional to the nature, scope and complexity of the Bank's operations, i.e. its risk profile..

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

Key principles that refer to risk taking, and are an integral part of business decision making, are expressed by the following criteria:

- establishment of targeted business activities and activities which are not acceptable for the Bank, in terms of assumed risks,
- establishment of maximum level of the assumed risk,
- monitoring of profitability of individual transactions related with the assumed risks.

The Bank's Risk management strategy is based on:

- strategic goals defined in the Business Strategy of Komercijalna banka AD Beograd,
- guidelines on readiness for risk assumption defined in the Risk Appetite of Komercijalna banka AD Beograd,
- regular annual review of strategic goals, business planning process and capital planning,
- internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP),
- activities and measures in the situation of activation of Recovery plan,
- other internal stress tests and risk analyses,
- regulatory and internal reporting,
- risk appetite and risk management strategy of NLB Group.

The Bank is guided by the main risk management principles in its operations by:

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

The Bank has identified the basic principles of risk management in order to fulfill its long-term goals:

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

Within the management of NPE (default exposures), depending on the assessment of the potential repayment capacity and business viability of clients, the Bank has the following options available:

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

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

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

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

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

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

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

Jurisdiction

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

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

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

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

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

During 2021, in accordance with the process of the risk management system harmonization with banking Group standards, several committees had been formed for various risk management aspects: Commission for monitoring of portfolio and collateral, Commission for repayment of problematic placements, Credit risk management committee and Operational risk committee.

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

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

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

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

Risk Management Process

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

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

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

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

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

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

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

5.1. Credit risk

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

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

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

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

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

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

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

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

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

Credit risk management

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

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

The basic principles of credit risk management are:

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

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

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

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

In the credit risk analysis, in addition to the internal rating system, the Bank uses the principles prescribed by the regulations of the National Bank of Serbia, which require the classification of each placement based on the prescribed criteria and the calculation of the reserve for estimated losses.

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

The basic techniques of credit risk mitigation are:

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

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

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

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

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

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

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

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

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

A Bank, besides 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 Bank members use the same control processes and procedures that are used for credit risk.

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

IFRS 9 Financial instruments

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

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

Considering that the Bank became a member of the NLB Group at the end of the year, in the upcoming period, additional adjustments of impairment methodologies with the established rules at the level of the Banking Group will be made.

The Bank'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 Bank has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured by amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

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

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

Identification of problematic and restructured receivables

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

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

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

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

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

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

IFRS 9 indicates that in the event of a significant modification of a financial instrument, derecognition of old financial asset and recognition of the new one should be made at fair value at the date of recognition.

Derecognition leads to a permanent gain or loss recognized in the income statement and is equal to the difference between the amortized cost of an old financial asset and the fair value of a new financial asset 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 Bank calculates 10% test in order to determine whether it is a significant or less significant modification.

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

Durin 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 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.

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

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

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

Risk of asset quality change

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

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

A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Bank (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 Bank protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

Risk of asset quality change – impairment of assets

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

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

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

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

Individual and Group Assessment at Stage 3

The Bank estimates impairment allowance for each individually significant placement with default status (risky placement, 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 Bank, a new assessment of the impairment of the placements is made.

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

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

Individual assessment

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

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

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

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

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

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

Group assessment

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

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

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

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

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

All financial instruments in which significant increase in credit risk has been carried out are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the lifetime of the instrument. In addition to qualitative and quantitative criteria for the classification to Stage 2, due to the conditions caused by the COVID-19 pandemic, during 2020 and the first quarter of 2021, the Bank has transferred a significant number of clients from industries which are affected by the COVID-19 virus pandemic the most (catering, tourism, transport ...) to Stage 2 for the purpose of preventive action and a realistic view of impairment, given the possible negative consequences of the COVID-19 pandemic on the mentioned clients' operations. This was conducted through an structural analysis of portfolio per industry, as well as by the analysis of individual clients.

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

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

In 2020, the Bank has 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.

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

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

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

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

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

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

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

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

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

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

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

Macroeconomic factors used in the impairment process

As part of the process of annual drafting of the Strategy and Business Plan, individual members of the Bank 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, Bank members use a set of different relevant external sources, as well as internal assessments.

Within the process of annual development of the Strategy and Business Plan, the Bank projects the values of macroeconomic factors for the period of the next three years, taking into account the characteristics of the markets in which it operates. In defining macroeconomic assumptions, the Bank uses a set of different relevant external sources, as well as internal estimates.

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

In accordance with the mentioned, during the development of the Bank's Strategy and Business Plan for the next period, a crisis of the combined form of Latin letters V (V) and U (U) is assumed, so that the effects, from the aspect of credit risk, will be realized during 2021. year (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.

Projection of macroeconomic factors as at December 31, 2020

Macroeconomic factor	ECL scenario	Weight	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

Projection of macroeconomic factors December 31, 2019

Macroeconomic factor	ECL Scenario	Weight	2020	2021	2022
		%	%	%	%
NBS key policy rate					
	Optimistic scenario	10	2.00	2.25	2.25
	Realistic scenario	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 scenario	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 scenario	80	1.95	2.15	2.15
	Pessimistic scenario	10	2.15	2.40	2.40

The projected values of the NBS key policy rate, inflation rate and 6M Belibor were adjusted downwards, reflecting the Bank's operations in the conditions of declining interest rates on the market of the Republic of Serbia, which is a consequence of the global pandemic and recession which to some extent has been transferred to the domestic market with the expectation that this phase does not have a 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 virus 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.

Additional protective layer of impairment for credit risk

In addition to the direct effects of the COVID-19 virus pandemic through the deterioration of macroeconomic expectations on the level of impairment of the Bank, it was necessary to include additional expert judgement when assessing the 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 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 greatest negative effects during 2021 (further deepening of the crisis and manifestation of the effects of the recession), with the expected slow recovery in 2022, which would continue in 2023. In addition, deterioration of projected default rates has been implemented by applying additional increase of default rates obtained by econometry models by 15% in 2021 and 10% in 2022 and 2023.

Calculation of credit risk impairment for stages 1 and 2

For impairment calculation for Stage 1 clients the Bank 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 Bank uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year. 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 June 30 and December 31) and are applied in the next half of the year, except for December 31 when PD parameter is applied for December 31. Exceptionally, the PD update is performed for the dates June 30 and December 31, 2020 with data as of May 31 and November 30 of the current year.

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

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

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

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Bank uses a different method of calculating impairment. The Bank does not have an adequate history in terms of migration and default exposure to countries and financial institutions. When assessing the impairment and default risk exposure of financial instruments of the state, its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency. It then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation. The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

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

The values of the annual rate of PD used in the calculation of the impairment of securities and financial institutions are reduced to monthly level. For LGD unsecured the parameter used is prescribed for exposures to countries and financial organizations, in accordance with Basel standards. LGD secured (if there is a collateral) is used in the same way as in the corporate and retail sector.

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

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liability and the debtor is classified at stage 3. Also, for stages 1 and 2, the Bank establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for stage 1 and stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Bank reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Bank calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures

and concluded that it does not have sufficient historical data to define CCF. Therefore, the Bank uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Bank's members. For unused commitments for which the Bank has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the Bank does not account for provisions based on unused commitments.

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

Means of protection against credit risk (collateral)

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

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

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

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

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

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

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

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

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

5.1.1. Total exposure to credit risk

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

In thousands of RSD

	31.03.2021.		31.12.2020.	
	Gross	Net	Gross	Net
I. Assets	491,450,568	465,060,275	**483,990,125**	**459,427,723**
Cash and balances with the central bank	80,223,934	80,223,934	80,045,107	80,045,107
Loans and advances to banks and other financial institutions	35,858,145	35,847,651	18,146,238	18,142,070
Loans and receivables from customers	202,247,540	189,240,028	200,690,207	189,296,089
Financial assets (securities and derivatives)	141,487,383	141,482,886	153,780,536	153,776,323
Other assets	7,887,508	5,626,116	8,510,717	6,216,270
Non monetary assets	23,746,058	12,639,661	22,817,320	11,951,865
II. Off-balance sheet items	**40,555,847**	**40,358,024**	**42,691,687**	**42,467,225**
Payable guarantees	4,046,412	3,992,915	4,014,943	3,952,927
Performance guarantees	5,696,497	5,641,030	6,116,729	6,051,112
Irrevocable liabilities	30,527,541	30,481,346	32,332,800	32,279,122
Other	285,397	242,732	227,215	184,064
Total (I+II)	**532,006,415**	**505,418,299**	**526,681,812**	**501,894,948**

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

In thousands of RSD

31.03.2021.	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Impairment allowance Stage 1**	**Impairment allowance Stage 2**	**Impairment allowance Stage 3**	**Impairment allowance**	**Net**
Housing Loans	46,038,414	626,601	863,626	47,528,641	28,150	4,214	423,997	456,361	47,072,280
Cash Loans	37,289,620	454,849	335,367	38,079,835	121,732	20,137	274,646	416,514	37,663,321
Agricultural Loans	11,615,617	131,631	307,547	12,054,795	96,942	11,218	166,755	274,915	11,779,880
Other Loans	4,062,785	55,325	204,421	4,322,531	21,980	4,355	194,411	220,746	4,101,785
Micro Business	8,664,568	1,241,193	411,021	10,316,783	137,752	35,605	269,079	442,436	9,874,346
Total retail	**107,671,004**	**2,509,599**	**2,121,981**	**112,302,585**	**406,556**	**75,529**	**1,328,888**	**1,810,972**	**110,491,613**
Large corporate clients	24,788,394	8,675,609	6,334,457	39,798,460	111,732	190,502	4,437,074	4,739,308	35,059,152
Middle corporate clients	7,659,283	598,913	542,062	8,800,258	48,066	5,850	248,917	302,833	8,497,424
Small corporate clients	2,970,838	310,717	723,716	4,005,271	31,839	5,252	401,039	438,130	3,567,141
State owned clients	20,777,010	648,991	3,520,971	24,946,972	66,918	31,946	1,129,896	1,228,760	23,718,212
Other	8,086,358	278	4,307,359	12,393,995	201,739	15	4,285,755	4,487,509	7,906,486
Total corporate	**64,281,883**	**10,234,508**	**15,428,565**	**89,944,955**	**460,293**	**233,565**	**10,502,682**	**11,196,539**	**78,748,416**
Total	**171,952,887**	**12,744,107**	**17,550,546**	**202,247,540**	**866,849**	**309,093**	**11,831,569**	**13,007,512**	**189,240,028**
Due from banks	**35,858,145**	**-**	**-**	**35,858,145**	**10,494**	**-**	**-**	**10,494**	**35,847,651**

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

5.1.2 Problematic receivables

Participation of problematic receivables, Stage 3 in total loan

In thousands of RSD

31.03.2021.	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructered receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	**112,302,585**	**1,810,972**	**2,121,981**	**275,141**	**1,328,888**	**1,89%**	**1,704,272**
Housing Loans	47,528,641	456,361	863,626	143,655	423,997	1,82%	855,014
Cash Loans	38,079,835	416,514	335,367	6,484	274,646	0,88%	124,126
Agricultural Loans	12,054,795	274,915	307,547	47,701	166,755	2,55%	285,633
Other	4,322,531	220,746	204,421	15,283	194,411	4,73%	18,023
Micro Businesses	10,316,783	442,436	411,021	62,019	269,079	3,98%	421,478
Corporate clients	**89,944,955**	**11,196,539**	**15,428,565**	**8,656,831**	**10,502,682**	**17,15%**	**13,727,507**
Agriculture	2,626,717	34,411	12,091	0	9,198	0,46%	12,259
Manufacturing Industry	13,231,803	1,743,266	2,771,807	2,679,251	1,655,218	20,95%	2,771,258
Electric Energy	3,321,415	14,938	-	-	-	0,00%	-
Construction	12,741,378	600,112	676,140	5,814	555,853	5,31%	683,010
Wholesale and Retail	16,960,188	704,242	690,793	486,084	530,569	4,07%	684,518
Service Activities	11,800,846	2,346,929	4,636,106	4,601,772	2,278,228	39,29%	4,636,370
Real Estate Activities	9,434,396	716,543	1,341,391	686,409	689,798	14,22%	1,358,262
Other	19,828,213	5,036,098	5,300,237	197,501	4,783,818	26,73%	3,581,829
Total	**202,247,540**	**13,007,512**	**17,550,546**	**8,931,972**	**11,831,569**	**8,68%**	**15,431,779**
Due from banks	**35,858,145**	**10,494**	**-**	**-**	**-**	**0,00%**	**-**

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

5.1.3. Nonproblematic receivables (Stage 1 and Stage 2)

In thousands of RSD

	31.03.2021.				31.12.2020.			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	46,604,797	60,218	46,665,015	46,175,679	45,757,208	108,512	45,865,720	45,451,796
Cash Loans	37,612,461	132,008	37,744,469	10,073,870	37,579,003	195,840	37,774,843	10,494,298
Agricultural Loans	11,706,673	40,575	11,747,248	11,169,671	11,611,627	86,113	11,697,740	11,065,548
Other Loans	4,098,616	19,495	4,118,110	201,816	4,332,597	27,056	4,359,653	206,082
Micro Businesses	9,401,721	504,041	9,905,762	14,572,584	9,247,799	499,999	9,747,798	9,737,277
Retail	**109,424,267**	**756,336**	**110,180,603**	**82,193,620**	**108,528,234**	**917,520**	**109,445,754**	**76,955,001**
Large corporate clients	27,967,112	5,496,891	33,464,003	33,811,865	24,713,727	5,681,747	30,395,474	30,401,513
Middle corporate clients	8,196,067	62,129	8,258,195	10,524,154	8,536,154	80,837	8,616,991	8,619,042
Small corporate clients	3,185,855	95,700	3,281,555	4,490,159	3,059,170	198,216	3,257,386	3,243,678
State owned clients	16,272,533	5,153,468	21,426,001	24,760,087	17,249,553	5,329,886	22,579,439	22,742,430
Other	4,185,731	3,900,905	8,086,636	6,421,504	4,404,927	4,313,542	8,718,469	6,899,846
Corporate Clients	**59,807,298**	**14,709,092**	**74,516,390**	**80,007,769**	**57,963,531**	**15,604,228**	**73,567,759**	**71,906,509**
Total	**169,231,565**	**15,465,429**	**184,696,994**	**162,201,389**	**166,491,765**	**16,521,748**	**183,013,513**	**148,861,510**
Due from banks	**35,858,145**	**-**	**35,858,145**	**-**	**18,146,238**	**-**	**18,146,238**	**-**

5.1.4. Restructured receivables

Measures that the Bank implements in the restructuring of receivables

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

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

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

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

5.1.5. Risk of concentration

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

5.2. Liquidity risk

Liquidity risk is the possibility of negative effects on the Banks's financial result and capital due to the Bank's inability to settle its liabilities, and in the situation of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Bank respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, ie. the Bank 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 Bank 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 aank within its competencies, as well as other relevant committees of the Bank members, whose decisions may influence the Banks's exposure to this risk.

In order to minimize liquidity risk, the Bank:

- 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.

Liquidity risk identification implies comprehensive and timely identification of the causes that lead to liquidity risk and implies determination of current liquidity risk exposure, as well as liquidity risk exposure based on 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 (operational and structural liquidity indicators);
- Stress test.

Mitigation involves maintaining the liquidity risk at an acceptable level for the Bank'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 Bank'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 and is carried out on a daily basis and according to the established dynamics, in accordance with the defined system.

The Bank adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month. In addition to harmonization with the externally defined liquidity limit, the Group adjusts its operations with a narrower liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month.

During the first quarter 2021 the Bank 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	
	2021	2020	2021	2020	2021	2020
On the day	4.58	4.06	4.27	3.94	635%	405%
Average for the period	4.29	4.17	4.06	4.00	516%	385%
Maximum for the period	4.68	4.73	4.42	4.50	635%	413%
Minimum for the period	3.92	3.42	3.76	3.27	425%	295%

During the first quarter 2021 liquidity ratio, rigid liquidity indicator and the liquidity coverage ratio ranged above the defined limits, as well as within the defined risk tolerance.

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

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

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 Bank 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 Bank's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Bank manages liquidity risk in short-term 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 Bank 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.

5.3 Market risks

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

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

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

5.3.1. Interest rate risk

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

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, the Bank has defined internal limits on interest rate risk exposure in significant currencies and a limit on the maximum economic value of capital.

Compliance with internally defined limits of economic value of capital:

	March 31,2021	**2020**
As	2.57%	2.89%
Average for period	2.20%	3.83%
Maximum for period	2.60%	5.21%
Minimum for period	1.44%	2.89%
Limit	**8%**	**10%**

The management of the Bank 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.

5.3.2. Foreign exchange risk

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

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

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

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

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

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

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

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

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

	March 31, 2021	2020
Total risk foreign exchange position	1,668,293	1,327,082
Foreign exchange risk indicator	2.45%	1.95%
Regulatory limit	20%	20%

5.4. Operational risk

Operational risk is the risk of possible negative effects on the Bank's financial result and capital due to omissions (intentional and unintentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the bank, as well as unforeseen external events. Operational risk includes legal risk.

Operational risk is defined as an event that occurs as a result of inappropriate or failed internal processes, actions of employees and systems or systemic and other external events, internal and external fraud, employment and workplace safety practices, customer claims, product distribution, fines and penalties for injuries, damage to tangible assets, business disruptions and systemic failures and process management.

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

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

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

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

Identification of operational risks involves assessing risk exposure by organizational forms 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.

In addition to the identification of operational risks process, the Bank conducted an assessment of operational risk exposure in the context of the Covid 19 virus pandemic and identified operational risks. Appropriate risk mitigation measures have been defined for the identified operational risks.

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

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

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

5.5. Risks of investment

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

5.6. Risk of exposure

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

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

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

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

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

5.7. Country risk

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

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

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

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

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

5.8. Capital management

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

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

The main goals of managing the capital are:

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

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

Capital adequacy ratios		*In thousands of RSD*
	March 31, 2021	**December 31, 2020**
Tier 1 capital	68,744,631	68,767,512
Common Equity Tier 1 capital	68,371,121	68,394,002
Additional Tier 1 capital	373,510	373,510
Deductible items of capital	(558,019)	(547,809)
Capital	**68,186,612**	**68,219,703**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	188,238,063	172,470,230
Risk exposure amount for operational risk	34,534,805	34,167,575
Risk exposure amount for market isks	4,790,569	3,268,120
Capital adequacy ratio	**29.96%**	**32.50%**
Tier 1 capital adequacy ratio	**29.96%**	**32.50%**
Common Equity Tier 1 capital adequacy ratio	**29.80%**	**32.32%**

During the first quarter of 2021, all prescribed capital adequacy ratios were above regulatory limits (12.80% + combined capital buffer, 9.60% + combined capital buffer and 7.19% + 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 Bank ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use at the banking group level, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During the first quarter of 2021, the Bank calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

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

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

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

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

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

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

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

6. EVENTS AFTER THE BALANCE SHEET DATE

On April 28th, 2021 a regular General Meeting of the Bank's Shareholders was held where the following decisions were made:

- adoption of the statutory report for the bank and regular financial statements for the Bank for 2020, with the auditor's opinion,
- adoption of the statutory report for the group and the regular financial statements for the Group ;for 2020, with the auditor's opinion,
- decision on the distribution of profit from 2020 and retained earnings from previous years,
- decision on rendering the Bank's Dividend Policy ineffective,
- decision on release from duty and appointment of a member of the Bank's Board of Directors.

Apart from this, there were no other significant events after the date of the reporting period that would require disclosure in the Notes to Financial Statements for March 31st, 2021.

7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet positions in Dinars (RSD) on March 31st, 2021 and 31 December 2020 for certain main currencies are as follows:

Currencies	Official NBS exchange rate	
	2021.	2020.
USD	100.4271	95.6637
EUR	117.5801	117.5802
CHF	106.3688	108.4388

In Belgrade,

On 12.05.2021.

Persons responsible for drafting the financial statements

БЕОГРАД

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STATEMENT

In our opinion, quarterly financial statements for the period 01.01.2021. to 31.03.2021. present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the International Accounting Standards and International Financial Reporting Standards (IAS and IFRS).

Persons responsible for the preparation of financial statements

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

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STATEMENT

Individual financial statements of Komercijalna banka AD Beograd for the period 01.01.2021. until 31.03.2021. have not been audited.

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

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

Persons responsible for the preparation of financial statements

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