KOMERCIJALNA BANKA A.D. BEOGRAD

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020

CONTENTS

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF KOMERCIJALNA BANKA A.D. BEOGRAD

Opinion

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

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

Basis for opinion

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

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

Key audit matters

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

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

Adequacy of the loan loss provisions

This is a key audit matter as significant judgement is involved to determine the loan loss provisions. The use of different modelling techniques and assumptions could produce significantly different estimates of impairment of loans to customers. The carrying amount of loans to customers amounts to RSD 189,296,089 thousand (or 41% of total assets) as at 31 December 2020.

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

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

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

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

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

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

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

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

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

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

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Other information included in the Bank's Annual Business Report

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

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

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

1. the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and

2. the other information is prepared in accordance with requirements of the Law on Accounting of Republic of Serbia.

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

Responsibilities of management and Audit Committee for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Belgrade, 15 March 2021

Preduzeće za reviziju Ernst & Young d.o.o. Beograd

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

STATEMENT OF PROFIT OR LOSS
In the period from January 1 to December 31, 2020
(Thousands of RSD)

	Note	2020	2019
Interest income	3c; 8	13,201,267	13,630,674
Interest expenses	3c; 8	(1,131,977)	(1,025,290)
Net interest gains		12,069,290	12,605,384
Income from fees and commissions	3d; 9	6,696,915	7,124,829
Expenses on fees and commissions	3d; 9	(1,821,507)	(1,795,833)
Net gains from fees and commissions		4,875,408	5,328,996
Net gains from changes in fair value of financial instruments	3e; 10	95,629	71,614
Net gains from derecognition of the financial instruments measured at fair value	3f; 11	157,796	353,490
Net exchange rate gains / (losses) and gains / (losses) from agreed currency clause	3b; 12	4,404	38,228
Net income / (expenses) from reduction in impairment / (on impairment) of financial assets not measured at fair value through income statement	3j; 13	(1,072,032)	2,425,931
Net gains / (losses) from derecognition of the financial instruments measured at amortised cost	14	-	579,933
Other operating income	3g; 15	211,389	151,321
TOTAL NET OPERATING INCOME		16,341,884	20,395,031
Salaries, salary compensations and other personal expenses	3r; 16	(5,819,946)	(4,917,532)
Depreciation costs	3l; 3lj; 3m; 17	(977,383)	(1,005,837)
Other income	18	859,417	720,795
Other expenses	19	(6,211,126)	(6,923,772)
PROFIT BEFORE TAX		4,192,846	8,268,685
Gains from deferred taxes	3i; 20.1	120,049	1,482,667
Losses on deferred taxes	3i; 20.1	(1,384,134)	(795,593)
PROFIT AFTER TAX		2,928,761	8,955,759
RESULT FOR PERIOD - PROFIT		2,928,761	8,955,759
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	3u; 35.2	173	532
Diluted earnings per share (in dinars, without paras)	3u; 35.2	173	532

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

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

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

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

Miroslav Perić, PhD
Member of the Executive Board

Vlastimir Vuković
Chief Executive Officer

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STATEMENT OF OTHER COMPREHENSIVE INCOME
In the period from January 1 to December 31, 2020
(Thousands of RSD)

	Note	2020	2019
PROFIT FOR THE PERIOD		2,928,761	8,955,759
Other comprehensive income for the period			
Components of other comprehensive income which cannot be reclassified to profit or loss:			
Increase in revaluation reserves based on intangible assets and fixed assets	20.5	7,894	111,214
Actuarial gains / (losses)	20.5; 33	3,954	(12,609)
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	20.5	118,902	651,534
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	20.5	(863)	-
Components of other comprehensive income that may be reclassified to profit or loss:			
Positive / (negative) effects of change in value of debt instruments measured at fair value through other comprehensive income	20.5	(388,567)	2,297,679
Tax gains relating to other comprehensive income for the period	20.5	60,916	1,891
Tax losses relating to other comprehensive income for the period	20.5	(18,428)	(455,735)
Total positive / (negative) other comprehensive income		(216,192)	2,593,974
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD		2,712,569	11,549,733

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

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

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БЕОГРАД

Miroslav Perić, PhD
Member of the Executive Board

Vlastimir Vuković
Chief Executive Officer

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

	Note	December 31, 2020	December 31, 2019
ASSETS			
Cash and assets held with the central bank	3k; 21	80,045,107	67,558,219
Securities	3j; 22	153,776,323	138,469,551
Loans and receivables from banks and other financial organisations	3j; 23	18,142,070	24,733,958
Loans and receivables from clients	3j; 24	189,296,089	180,852,563
Investments in subsidiaries	3j; 25	3,433,697	3,433,697
Intangible investments	3lj; 26	510,669	665,735
Property, plant and equipment	3l; 27	6,045,330	6,437,937
Investment property	3m; 28	1,819,507	1,857,927
Current tax assets	20.1	12,237	-
Deferred tax assets	20.4.3.	-	1,074,197
Non-current assets held for sale and discontinued operations	29	130,426	196,300
Other assets	3j; 30	6,216,268	7,100,359
TOTAL ASSETS		459,427,723	432,380,443
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	3o; 31	4,989,315	5,021,756
Deposits and other financial liabilities to clients	3o; 32	372,699,401	335,317,154
Provisions	3p; 33	2,529,268	2,328,130
Deferred tax liabilities	20.4.3.	147,400	-
Other liabilities	3o; 34	4,975,476	13,861,230
TOTAL LIABILITIES		385,340,860	356,528,270
EQUITY			
Share capital	3t; 35	40,034,550	40,034,550
Profit	3t; 35.1	5,319,351	10,425,898
Reserves	3t; 35.1	28,732,962	25,391,725
TOTAL EQUITY		74,086,863	75,852,173
TOTAL LIABILITIES AND EQUITY		459,427,723	432,380,443

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

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

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

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

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

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

DESCRIPTION	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Profit	Total
Opening balance as at 1 January 2019	17,191,466	22,843,084	14,223,535	4,254,737	9,047,691	67,560,513
The adjusted opening balance as at 1 January 2019	17,191,466	22,843,084	14,223,535	4,254,737	9,047,691	67,560,513
Total positive other comprehensive income for the period	-	-	-	2,571,781	-	2,571,781
Profit for the current year	-	-	-	-	8,955,759	8,955,759
Distribution of profit – increase	-	-	4,341,672	-	-	4,341,672
Distribution of profit and/or coverage of losses – decrease	-	-		-	(4,341,672)	(4,341,672)
Dividend payments	-	-	-	-	(3,258,073)	(3,258,073)
Other – increase	-	-	-	-	22,193	22,193
Total transactions with owners	-	-	4,341,672	-	(7,577,552)	(3,235,880)
Balance as at 31 December 2019	17,191,466	22,843,084	18,565,207	6,826,518	10,425,898	75,852,173

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

DESCRIPTION	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Profit	Total
Opening balance as at 1 January 2020	17,191,466	22,843,084	18,565,207	6,826,518	10,425,898	75,852,173
The adjusted opening balance as at 1 January 2020	17,191,466	22,843,084	18,565,207	6,826,518	10,425,898	75,852,173
Total negative other comprehensive income for the period	-	-	-	(240,763)	-	(240,763)
Profit for the current year	-	-	-	-	2,928,761	2,928,761
Distribution of profit - increase			3,582,000	-	-	3,582,000
Distribution of profit and/or coverage of losses - decrease	-	-	-	-	(3,582,000)	(3,582,000)
Dividend payments	-	-	-	-	(4,477,879)	(4,477,879)
Other - increase	-	-	-	-	24,571	24,571
Total transactions with owners	-	-	3,582,000	-	(8,035,308)	(4,453,308)
Balance as at 31 December 2020	17,191,466	22,843,084	22,147,207	6,585,755	5,319,351	74,086,863

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

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

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

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

Vlastimir Vuković
Chief Executive Officer

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

	2020	2019
A. CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	19,453,387	22,680,043
Interest	12,039,482	14,266,668
Fees	6,777,100	7,176,890
Other operating income	627,413	1,225,350
Dividends and profit sharing	9,392	11,135
Cash outflow from operating activities	(12,333,889)	(12,820,302)
Interest	(953,415)	(919,958)
Fees	(1,861,331)	(1,729,276)
Gross salaries, salary compensations and other personal expenses	(4,452,983)	(4,359,913)
Taxes, contributions and other duties charged to income	(913,879)	(945,578)
Other operating expenses	(4,152,281)	(4,865,577)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	7,119,498	9,859,741
Decrease in financial assets and increase in financial liabilities	39,996,398	19,256,099
Decrease in receivables under securities and other financial assets not intended for investment	2,164,218	-
Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	37,832,180	19,256,099
Increase in financial assets and decrease in financial liabilities	(3,244,706)	(29,251,299)
Increase in loans and receivables from banks, other financial organisations, central bank and clients	(3,244,706)	(23,950,330)
Increase in receivables under securities and other financial assets not intended for investment	-	(5,300,969)
Net cash inflow / (outflow) from operating activities before profit tax	43,871,190	(135,459)
Profit tax paid	(12,237)	-
Dividend payment	(14,223,065)	-
Net cash inflow / (outflow) from operating activities	29,635,888	(135,459)

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

	2020	2019
B. CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	19,211,692	50,001,000
Investment in investment securities	19,211,692	50,001,000
Cash outflow from investing activities	(38,540,938)	(47,854,250)
Investment into investment securities	(38,394,476)	(47,352,299)
Purchase of intangible investments, property, plant and equipment	(146,462)	(501,951)
Net cash inflow / (outflow) from investing activities	(19,329,246)	2,146,750
C. CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	330,334,960	95,834,974
Loans taken	330,334,960	95,834,974
Cash outflow from financing activities	(329,862,375)	(97,476,818)
Loans taken	(329,415,905)	(97,090,930)
Other outflow from financing activities	(446,470)	(385,888)
Net cash inflow / (ouflow) from financing activities	472,585	(1,641,844)
TOTAL CASH INFLOW	408,996,437	187,772,116
TOTAL CASH OUTFLOW	(398,217,210)	(187,402,669)
NET INCREASE IN CASH	10,779,227	369,447
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	40,866,651	40,375,748
EXCHANGE RATE GAINS	551,911	570,989
EXCHANGE RATE LOSSES	(560,491)	(449,533)
CASH AND CASH EQUIVALENTS AT END-PERIOD	51,637,298	40,866,651

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

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

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

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД

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

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

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

The largest share in the controlling activities of the Bank is:

NLB d.d. Ljubljana	83.23%

By signing the Agreement on the transfer of shares on December 30, 2020 between the Republic of Serbia and NLB d.d. Ljubljana, , the sale process of Komercijalna banka ad Belgrade was concluded.The subject of the agreement was 83.23% of ordinary shares of Komercijalna banka, which made NLB d.d. Ljubljana the owner of shares held by the Republic of Serbia and the largest individual owner of the Bank with the right to manage.

The Bank is registered for performing crediting, depositary and guarantee operations, as well as for payment transfer operations within the country and abroad.

As of December 31, 2020, the Bank was comprised of the Head Office located in Belgrade in Svetog Save Street no. 14, 6 business centers, 3 sectors that work with small and medium enterprises, 1 branch and 213 sub-branches in the territory of the Republic of Serbia (December 31, 2019: 6 business centers, 3 business and corporate centers, 1 branch and 203 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2020, the Bank had 2,669 employees (December 31, 2019: 2,744 employees). The Bank’s tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

The Bank’s standalone financial statements (the “financial statements”) for 2020 have been prepared in accordance with the International Financial Reporting Standards (“IFRS.

The accompanying financial statements represent the Bank’s standalone financial statement. The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards.

New and revised standards and interpretations issued that came into effect in the current period are disclosed in Note 2.2, while standards and interpretations in issue but not yet in effect are disclosed in Note 2.3.

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of Financial Statements of Banks (Official Gazette of RS nos. 101/2017, 38/2018 and 103/2018).

These financial statements were prepared at historical cost principle unless otherwise stipulated in the accounting policies presented hereunder.

In the preparation of the accompanying financial statements, the Bank adhered to the accounting policies described in Note 3.

The Banks financial statements are presented in thousands of RSD („Serbian Dinars“). Dinar represents the official reporting currency in the Republic of Serbia.

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

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

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

- Conceptual Framework in IFRS standards

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

- IFRS 3: Business Combinations (Amendments)

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

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

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

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

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

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

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

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

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

Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Subsidiaries and Joint Ventures : Sale of Assets between Investors and Subsidiaries
The amendments indicate a known discrepancy between the requirements in IFRS 10 and those in IAS 28, related to the sale or transfer of assets between an investor and its subsidiaries and joint ventures. The main consequence of the changes relates to the fact that the total loss or gain is recognized when the transaction affects the business (regardless of whether it is a subsidiary or not). A partial gain or loss is recognized when the transaction affects a non-business asset, even when the asset is part of a subsidiary. In December 2015, the International Accounting Standards Board postponed the date of application of this standard indefinitely pending the outcome of research related to the application of participation methods. This change has not yet been approved by the EU. The requirements of this standard are not expected to have a significant impact on the Bank's financial statements.

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

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

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

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

- IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contigent Liabilities and Contigent Assets and Annual Improvements (Amendments)
  The amendments are effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. The International Accounting Standards Board has issued amendments to IFRS narrow scope as follows:

- IFRS 3 Business Combinations (Amendments) updates the reference in IFRS 3 Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

- IAS 16 Property, Plant and Equipment (Amendments) prohibits an enterprise from deducting from the cost of property, plant and equipment amounts received from the sale of manufactured items while the company is preparing an asset for its use. Instead, the company will recognize such sales revenue and related expenses in the income statement.

- IAS 37 Provisions, Contigent Liabilities and Contigent Assets (Amendments) specifies what costs an entity includes in determining the cost of performing a contract to assess whether the contract is onerous.

- Annual improvements lead to minor changes to IFRS 1 the first adoption of International Financial Reporting Standards, if IFRS 9 Financial Instruments, IAS 41 Agriculture and illustrative examples are accompanied by IFRS 16 Leasing.
  These changes have not yet been approved by the EU. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

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

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

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

The amendment is effective for annual reporting periods beginning on or after June 1, 2020, retrospectively. Earlier application is permitted, including in financial statements not yet authorized for issue on May 28, 2020. The International Accounting Standards Board amended the standard to provide relief to lessees from the application of IFRS 16 guidance on accounting for lease modifications to rental concessions that appear as a direct consequence of the "COVID-19 pandemic". This amendment provides practical accounting treatment to the lessee, when accepting any changes in leases resulting from COVID-19 related rental concessions, so that it can cover them in the same way as any change under IFRS 16, if the change was not a modification lease, only if all of the following conditions are met:

- Changes in lease payments lead to a change in the lease that is substantially the same or less than the rent immediately before the change occurs.
- Any reduction in lease payments only affects payments that were originally due on or before June 30, 2021.
- There are no substantial changes to other lease terms.

The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

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

2.4. Basis of accounting

COVID-19 virus pandemic

After the outbreak of the COVID-19 virus pandemic (hereinafter: corona virus) in the World and Europe, which first appeared in December 2019 in China and spread to Europe and the rest of the world from January 2020, and to Serbia from March 6, 2020, the Bank, as a responsible legal entity, took all necessary measures in order to protect its employees, clients, creditors and business partners. Measures have been taken to ensure safe working conditions for the Bank, respecting the recommendations of the public health institutions of Serbia, as well as measures of the Government of Serbia that enable the smooth conduct of business activities of the Bank.

The course of the corona virus is unpredictable, so a major challenge for the Bank is to anticipate its implications for economic and business performance, which may result in estimates and assumptions that will require revision. Also, the uncertainty refers to the set of state measures for the suppression and spread of the virus, which have already been taken and which will be taken in the future. The measures may affect the operations of the entire Serbian economy and consequently the operations of the Bank.

According to preliminary estimates of the Bank's management, the new pandemic could in this case affect the expected level of revenue realization on the one hand and potential cost growth on the other, loan distribution, loan portfolio quality, security, impairment allowance, due to reduced ability of debtors to repay their obligations, especially in economic branches such as tourism, catering, transport, oil industry and others. Despite the pandemic, the Bank's liquidity is high and stable, and the capital adequacy is at a much higher level than the legally prescribed limit.

In accordance with the Decision on temporary measures to preserve the stability of the financial system of the National Bank of Serbia dated March 17, 2020, which regulates the measures and activities that the bank is obliged to implement in a pandemic caused by the COVID-19 virus, in order to preserve the stability of the financial system in the Republic of Serbia, the Bank offered a delay in repayment of obligations (moratorium) to debtors , guarantees, allowed overdrafts and other credit products for a period of at least 90 days, starting from March 31, 2020.

After the expiration of the conditions from the Moratorium, which referred to the delay in the repayment of clients' obligations, the Bank continued with the activities of regular loan collection. The calculation of the regular agreed interest to the principal debt was attributed with the extension of the repayment period, for the number of annuities covered by the moratorium. The activities related to the conditions on the continuation of calculation and collection of loans were performed by the Bank in accordance with the Decision of the NBS. This also applies to all other obligations of clients based on credit products to which the Moratorium was previously applied.

Also, in order to provide RSD and foreign currency liquidity, the NBS, after the introduction of the state of emergency, introduced auctions in which it performs swap and repo transactions with commercial banks. At swap auctions, the NBS buys and sells foreign currency, and buys government securities from banks through at repo auctions. As a secondary liquidity reserve, the Bank has a significant amount of securities that are highly marketable, given the high rate of return they carry. Based on the above, it can be concluded that, although reduced liquidity of the Bank is expected with the introduced moratorium on loans, the Bank's liquidity is still significantly above the regulatory limits.

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

2.4. Basis of accounting (continued)

In accordance with the Decision of the NBS on temporary measures to mitigate the consequences of the COVID-19 pandemic in order to preserve the stability of the financial system, which entered into force as at July 28, 2020, the Bank again offered a delay in the repayment of obligations to clients (moratorium) on loans, credit cards and allowed overdraft on the current account, within three days from the date of entry into force of this Decision of the NBS, i.e. July 31, 2020 by publishing the offer on the Bank's website, which means that the offer has been delivered to all users.

If the debtor, within 10 days from the date of publication of this notice on the Bank's website, did not reject the offer for the application of the moratorium, which could be done subsequently, the moratorium was applied to obligations due from August 1, 2020 until September 30, 2020, including outstanding liabilities due in July 2020. For clients who have rejected the moratorium, the collection of due monthly obligations is made in the amount from the existing repayment plan without calculation of default interest. Starting from October 2020, regular loan repayments continued.

In accordance with the Decision of the National Bank of Serbia on the second moratorium, the calculated interest during the moratorium is evenly distributed over the newly determined loan repayment period, without capitalization of interest on the principal debt with extension of the repayment period for the number of annuities or deferred principal covered by the additional moratorium.
In addition, in accordance with the new instruction of the NBS, regarding the repayment of obligations due during the first moratorium to harmonize the effects of the first moratorium with the effects of the second moratorium, the Bank harmonized the calculation of interest so that even the first moratorium does not capitalize regularly calculated interest, but it is evenly distributed in the remaining period of the loan.

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

Pursuant to the Decision of the NBS on temporary measures for banks in order to adequately manage credit risk in the conditions of COVID-19, dated December 15, 2020, the Bank will grant further relief in repayment of obligations (loans, credit cards and allowed overdrafts) to debtors: individuals, farmers, entrepreneurs and companies, based on the debtor's request if all the prescribed conditions are met:
1. if the debtor is not able to settle the obligations towards the Bank or if he may have difficulties in settling the obligations towards the Bank if one of the conditions prescribed by the Decision is met separately

- for the debtor as a private individual
- for a debtor agriculturist, entrepreneur or company

2. if the debtor as at February 29, 2020, as well as 12 months before, he had no liabilities in the status of outstanding liabilities for more than 90 days
3. If the debtor as at February 29, 2020, as well as 12 months before the year, there is not a single claim classified as problematic

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES

When compiling and presenting the financial statements for the period January - December 2020, the legal regulations of the NBS were applied, according to which banks were obliged to apply the forms of financial statements valid from 1 January 2018.

(a) Consolidation

The Bank has control over the following legal entities, which are not consolidated into these financial statements:

Legal Entity	Equity Interest
Komercijalna banka a.d. Podgorica, Montenegro	100%
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	99.99%
UCITS Fund Management Company KomBank INVEST a.d. Beograd, Serbia	100%

The Bank's consolidated financial statements are prepared and disclosed separately.

In Bank's standalone financial statements, investments in subsidiaries are measured at cost.

(b) Foreign Exchange Translation

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

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

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

		In RSD
	2020	2019
USD	95.6637	104.9186
EUR	117.5802	117.5928
CHF	108.4388	108.4004
JPY	0.9277	0.9653

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(c) Interest

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

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses that might arise.

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

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

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

Recognition of interest income on credit-impaired placements that are classified as Stage 3, by net principle, is carried out using an alternative unwinding concept. When a financial asset becomes credit-impaired as compared to the moment of initial recognition and is therefore regarded as Stage 3, the Bank calculates interest income by using an alternative concept of unwinding - IRC method, by reducing the accrued interest income with associated impairment recognized in the current year, whereby interest receivable is recognized at gross principle.

(d) Fees and Commissions

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

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

Other fee and commission are mainly related to fees basedon transaction and service performed and are recorded at the moment of receiving the service.

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

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

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

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

g) Dividends

Dividend income is recognized at the moment of inflow of economic benefits from dividends. Dividends are presented under position of Other operating income.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing

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

Bank as leasee

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

(i) Right of use assets

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

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

Right of use assets are depreciated at a rate ranging from 92.31% to 6.70% annually, depending on the contractual right to use the asset.

(ii) Leasing liabilities

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

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

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

For the first application of IFRS 16, the right to use the lease asset is generally measured in the amount of the lease liability, using an average incremental borrowing rate of 0.3324% to 2.4310% for EUR and in the range of 2.8660% to 4.1253% for RSD.

During 2020, the incremental indebtedness rate did not have large variationsand rates ranged from 0.2305% to 3.1000 for EUR and 0.47950 to 4.95119 for RSD.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

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

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

Bank as a leasor

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

(i) Tax Expenses

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

(i) Current Income Tax

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

(ii) Deferred Income Tax

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

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

Deferred tax assets are recognized for all deductible temporary differences and the tax effects of income tax losses available for carry forward and tax credits, to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and tax losses carry forward can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are recognized on all taxable temporary differences.

(iii) Other Taxes and Contributions

In accordance with the applicable regulations in the Republic of Serbia, the Bank pays various taxes and contributions, such as service tax, tax on investments in equity and contributions on salaries and wages. These expenditures are included in “Other expenses”.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Financial instruments

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

Financial assets

A financial asset is any asset that is:

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

Financial liabilities

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another legal entity,
- a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Principles of measurement of financial instruments

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

Financial assets

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

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

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

Financial assets can be classified into the following categories:

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

In accordance with the classification of assets from the previous paragraph, the Bank categorizes all placements from its portfolio relating to:

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Bank does not intend to sell in the short term,
- Securities that are measured at fair value through profit and loss statement that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- Securities, which include debt securities and equity securities (capital instruments):

  - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.

  - Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.

  - Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and

- Financial derivatives that include forward and swap transactions.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Classification and measurement

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

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

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

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

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

Debt instruments are valued as FVOCI only if the following criteria are met and FVtPL option is not chosen:

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

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

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Classification and measurement (continued)

The Bank has started the analyses of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered. Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

In assessing whether the contractual cash flows represent solely the payment of principal and interest, the Bank has reviewed the contractual terms of financial instruments and whether they contain stipulations that could change the timing or amount of contracted cash flows, which would result in fair valuation of instruments. The analysis concluded that there are no credit products of the Bank whose contractual terms and conditions lead to cash flows other than payments of principal and interest at certain dates, which would require fair value valuation.

Financial liabilities

After initial measurement, financial liabilites are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on financial liabilities, and costs that are an integral part of the EIR.

The Bank does not have financial liabilities designated as FVtPL.

Impairment of financial assets

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Impairment of financial assets (continued)

Stage 1

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

Stage 2

All financial instruments for which significant increase in credit risk since initial recognition has been identified are classified in stage 2, and impairment allowance are calculated on the basis of expected credit losses for the entire lifetime of the instrument.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. According to the internal policy of the Bank, a significant increase in credit risk is considered to be days past due of 31 to 90 days, restructuring, Watch-list clients etc.

Stage 3

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

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

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

POCI

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Impairment of financial assets (continued)

(iii) Derecognition

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

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

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

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

(iiii) Modifications

Amendments to the contract due to the financial difficulties of the debtor are not considered a significant modification leading to the derecognition of the financial asset.

In accordance with IFRS 9, the Bank determines the new gross carrying amount of a financial asset and recognizes income or expense based on a modification in the income statement. The effect is recognized in the Income statement, under position Net gains/lossess from decrease/increase in impairment of financial assets that are not measured at fair value through profit or loss. The gross carrying amount of a financial asset is determined as the present value of the modified cash flows discounted using the original effective interest rate. Any transaction costs incurred adjust the carrying amount of the modified financial asset and are amortized over its useful life.

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

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

Impairment of financial assets (continued)

(iiii) Modifications (continued)

The Bank determined October 1, 2020 as the date of modification for the calculation of the effects according to provisons of Moratorium 1 and 2, having in mind:

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

(iiiii) Netting

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

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

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, assets with central banks that can be unrestrictedly disposed of and highly liquid financial assets with a maturity shorter than 3 months, low risk of change in value, which are used by the Bank for short-term liquidity management.

Cash is carried at amortized cost in the balance sheet.

(l) Property and Equipment

(i) Recognition and Measurement

Initial measurement of property and equipment is done at cost.

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

After initial recognition the property is measured at cost less accumulated depreciation and subsequent accumulated impairment losses.

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

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

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

(ii) Subsequent Costs

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

(iii) Depreciation

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

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(l) Property and Equipment (continued)

(iii) Depreciation (continued)

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

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	3 – 15	6.70%-33,33%
Investments in other fixed assets	1 – 23.5	4.25%-86.20%
Leased fixed assets	1.1-14.11	6.70%-92.31%

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

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

(lj) Intangible Assets

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

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

Amortization is presented in the profit and loss statement in equal annual amounts during the estimated useful lives of the item of intangible assets, since it thus best reflects the expected consumption of the useful economic value contained in the asset. Estimated useful lives of intangible assets is 3 to 10 years, i.e. amortization rates range from 10.00% to 33.34%.

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

(m) Investment Property

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

Initial valuation of investment property is carried out at cost. The cost of the purchased investment property includes its purchase price and all expenses directly attributable to the acquisition of the asset.

For subsequent evaluation of investment property the Bank uses the cost model, i.e. investment property is measured at cost less accumulated depreciation and impairment losses.
Estimated lifetime of investment property is 40 years, and depreciation is calculated at a rate of 2.50%. Depreciation is presented in the Profit and loss statement in equal annual amounts during the estimated useful lifes of the given real estate item, since this way best reflects the expected consumption of the useful economic value contained in the asset.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(n) Impairment of Non-Financial Assets

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

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

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

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

(o) Deposits, Borrowings and Subordinated Liabilities

Deposits, debt securities, loans and subordinated liabilities are the Bank’s main sources of financing.

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

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

(p) Provisions

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

(r) Employee benefits

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

In accordance with the Labor Law, the Bank is obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at December 31, 2020, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in Note 33(b).

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(s) Financial Guarantees

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

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

(t) Capital and Reserves

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

The Bank's capital is comprised of funds invested by the Bank's founders in monetary form and non-monetary form. A founder cannot withdraw funds invested in the Bank's equity.

(u) Earnings per Share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. The basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

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

(v) Segment Reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by Bank management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which separate financial information is available.

In accordance with IFRS 8 "Operating Segments", the Bank discloses information on performance of segments, thus providing the users of the financial statements with additional information on income and expenses arising from its key business activities.

When determining the operational segments, the following were used:

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

4. RISK MANAGEMENT

The 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 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 and Capital Management Strategy, the Bank has set the following objectives within the framework of the risk management system: minimizing the negative effects on the financial result and capital, while respecting the defined risk tolerance framework, diversifying the risks to which the Bank is exposed, maintaining the required level of capital adequacy, maintaining the participation NPL in total loans to acceptable level for the Bank, maintaining concentration risk indicators based on exposure to certain types of products below the level prescribed by regulations, maintaining the share of loans in dinars with a currency clause in foreign currency and loans in foreign currency in total Bank loans below the level prescribed by regulations, maintaining liquidity coverage ratios above the level prescribed by regulations; internal limits, development of the Bank's activities in accordance with the business strategy and opportunities and market development in order to create competitive advantages. The objectives of risk management are in line with the Bank's business plan.

Following the changes to the regulations of the National Bank of Serbia, the need to further improve the risk management process, recommendations of the external auditor, as well as the newly-formed situation caused by the COVID-19 virus pandemic, during the 2020, the Bank performed adequate changes in the risk management internal acts.

Risk Management System

The risk management system is defined by the following acts:

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

With it’s Risk Management Framework, the Bank formalized it’s tendency towards taking risks, through defined goals (aims), tolerance (triggers) and limits, based on quantitative and qualitative analysis. The Risk Management Framework is an integrated process of decision-making within the Bank, as well as the process for strategic planning – development of the Strategy and Business plan.

4. RISK MANAGEMENT (continued)

Risk Management Strategy sets out:

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

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

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

- Organization of the business of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the Bank's regular business activities;
- Comprehensive risk management;
- Effectiveness of risk management;
- Cyclical risk management;
- Developing risk management as a strategic commitment;
- Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

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

4. RISK MANAGEMENT (continued)

Principles of risk management arising from RSD exposures with a foreign currency clause and foreign currency exposures include:
• Consideration of clients' exposure from the aspect of credit and foreign exchange risk - by considering the impact of potential changes in the exchange rate on the client's income and his loan repayment capacity;
• Consideration of the type and segment of business from the aspect of credit and foreign exchange risk - through consideration of the type of activity and type of product in terms of direct or indirect connection of business and product price with the movement of exchange rates;
• Preventive measures and activities in order to minimize exposure to credit and foreign exchange risk;
• Clearly defined activities in the process of approving loans indexed in foreign currency and loans in foreign currency;
• Segmentation of exposures by type of exposure;
• Higher frequency of monitoring the value of collateral for risky placements, as well as collateral acquired through collection of receivables;
• Organizational separation of responsibilities for monitoring in relation to organizational units in whose scope the risk is assumed;
• Involvement in corporate governance and risk management of indicators for monitoring credit and foreign exchange risk exposure
• Transparent reporting to the Bank's bodies on credit and foreign exchange risk exposure, including information on the efficiency and effectiveness of the implementation of collection activities and measures for the management of bad assets, ie risky placements;
• Monitoring the movement of exchange rates.

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.

4. RISK MANAGEMENT (continued)

Jurisdiction

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

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT (continued)

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.

4. RISK MANAGEMENT (continued)

4.1. 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, 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, 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 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The basic principles of credit risk management are:

- Credit risk management at the level of individual placements and at the level of the 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.

In the credit risk analysis, in addition to the internal rating system, the Bank uses the principles prescribed by the regulations of the National Bank of Serbia, which require the classification of each placement based on the prescribed criteria and the calculation of the reserve for estimated losses. In December 2018, the National Bank of Serbia adopted an amendment to the regulations which, as of January 1, 2019 confirms the abolition of the calculation of reserves for estimated losses and required reserves. Since the Bank became a member of the NLB Group at the end of the year, in the upcoming period, additional adjustments of the internal rating system with the rules at the level of the Banking Group will be made.

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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Considering that the Bank became a member of the NLB Group at the end of the year, in the upcoming period, possible 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Risk of asset quality change

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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment

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

Group estimates are carried out by 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, 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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).

According to the preliminary estimate of Statistical Office of the Republic of Serbia (SORS), in 2020, Serbia recorded a decline in GDP of 1.1%. According to the assessment of the National Bank of Serbia, the decline came from the service sectors most severely affected by the pandemic (tourism, catering and traffic), while construction recorded a minimal decline. The projection of the National Bank of Serbia for 2021 is a GDP growth of 6.0% with symmetrical risks, where the positive risks come from the domestic and the negative from the international environment. The economic policy measures adopted during 2020 (5.8 billion euros, about 12.5% of GDP) managed to limit the effect of the crisis, as well as sustainable growth of about 4% in the medium term. Inflation in December 2020 was 1.3% year-on-year, while average year-on-year inflation in 2020 was 1.6%. Low inflationary pressures are also indicated by core inflation of 2.1% in December 2020. The forecast of the National Bank of Serbia is that inflation will move within the lower limit of the target range in 2021. The forecast of the National Bank of Serbia is that inflation will move within the lower limit of the target range in 2021. In the medium term, disinflationary pressures prevail. According to the assessment of the National Bank of Serbia, the risks of the projection are symmetrical, and the uncertainty is still mainly related to trends in the international environment, global trade and economic growth (primarily the Eurozone) and others. The movement of inflation will also depend on the speed of recovery of domestic demand and regulated prices.

In accordance with the 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.

Macroeconomic factors that show statistically based links with default rates, and consequently with expected credit losses are detail presented as at December 31, 2020 and December 31, 2019 with projected values used in each of the three scenarios (realistic, pessimistic and optimistic).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Since the beginning of 2020, the Bank has repeatedly re-evaluated the key macroeconomic variables included in the calculation of expected credit losses. 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.

Industrial production in the Republic of Serbia in November 2020 is lower by 1.4% compared to November 2019, while compared to the average in 2019, it is higher by 6.0%. Industrial production in the period January - November 2020, compared to the same period in 2019, is higher by 0.1%.
Observed by sectors, in November 2020, compared to the same month in 2019, the following trends were recorded: manufacturing industry - a decline of 3.8%, electricity, gas, steam and air conditioning supply - an increase of 6.6% and mining industry - growth of 7.2%. Data on industrial production by purpose groups in November 2020, compared to the same month last year, show that there was a decline in production: non-durable consumer goods (5.7%) and capital goods (5.4%) , while growth was recorded in the production of: durable consumer goods (7.8%), intermediate goods (except energy (1.4%)) and energy (0.7%).

The movement of EURIBOR rates during 2020 had higher volatility than usual. The COVID-19 virus pandemic and a significant decline in economic activity affected the lack of liquidity in the market and the growth of EURIBOR, which was most pronounced in the second half of April when the negative quarterly EURIBOR was 0.16%. During that period, a number of measures were taken by leading central banks in the direction of very expansive monetary policies, which affected the growth of liquidity in the banking system and the fall of EURIBOR to record low levels and close to the ECB interest rate on deposit facilities (-0.5%) which is considered practically the lower limit, because banks can keep excess liquidity with the European Central Bank (ECB) at that rate.
The future movement of EURIBOR is difficult to predict, given that it is a market category determined by supply and demand, but the movement of this rate will largely depend on the policy of the European Central Bank in the following period, ie. the extent to which expansionary monetary policy will be pursued.

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

BELIBOR (BELIBOR - Belgrade Interbank Offered Rate) is the reference interest rate determined on the Panel of Banks, on the Serbian interbank market. In December 2020, the National Bank of Serbia lowered the reference interest rate by an additional 25 basis points, to 1%, continuing to ease monetary policy. This provided additional support to the domestic economy, given the scale of the global crisis caused by the pandemic, the deteriorating epidemiological situation again and the slowdown in economic recovery globally, especially in Europe.

NBS key policy rate with an additional reduction is at a level that is 1.25 percentage points lower than before the outbreak of the pandemic. It is expected that further easing of monetary policy, with previous strong measures of the National Bank of Serbia and the Government, as well as announced additional fiscal policy measures, will continue to have a favorable effect on financing conditions of the economy and citizens and growth of their disposable income.

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

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

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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD. The 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

The total exposure to credit risk as at December 31, 2020 and December 31, 2019 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

	31.12.2020		31.12.2019	
	Gross	Net	Gross	Net
I. Assets	483,990,125	459,427,723	456,990,222	432,380,443
Cash and balances with the central bank	80,045,107	80,045,107	67,558,219	67,558,219
Loans and advances to banks and other financial institutions	18,146,238	18,142,070	24,952,308	24,733,958
Loans and receivables from customers	200,690,207	189,296,089	192,872,896	180,852,563
Financial assets (securities and derivatives)	153,780,536	153,776,323	138,470,153	138,469,551
Other assets	8,510,717	6,216,270	9,339,310	7,100,360
Non monetary assets	22,817,320	11,951,865	23,797,336	13,665,793
II. Off-balance sheet items	42,691,687	42,467,225	53,123,735	52,932,759
Payable guarantees	4,014,943	3,952,927	4,210,006	4,185,429
Performance guarantees	6,116,729	6,051,112	4,764,048	4,722,824
Irrevocable liabilities	32,332,800	32,279,122	43,588,232	43,487,483
Other	227,215	184,064	561,449	537,023
Total (I+II)	526,681,812	501,894,948	510,113,958	485,313,202

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

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

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
31.12.2019	170,284,910	6,745,322	15,842,664	192,872,896
New receivables	40,852,435	1,316,000	86,359	42,254,794
	(22,767,537)	(1,473,522)	(2,084,797)	(26,325,856)
Decrease/collection of receivables	-	(549,000)	(126,837)	(675,837)
Transfer to Stage 1	(6,055,509)	-	(82,076)	(6,137,585)
Transfer to Stage 2	(4,272,339)	(173,374)	-	(4,445,713)
Transfer to Stage 3	675,837	6,137,585	4,445,713	11,259,135
Transfer from other Stages	(6,800,106)	(907,189)	(404,332)	(8,111,627)
31.12.2020	171,917,691	11,095,822	17,676,694	200,690,207

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

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
31.12.2019	874,495	125,198	11,020,640	12,020,333
New receivables	241,224	74,597	67,455	383,276
	(156,374)	(18,421)	(1,776,854)	(1,951,649)
Decrease/collection of receivables	-	(22,879)	(70,431)	(93,310)
Transfer to Stage 1	(32,865)	-	(41,492)	(74,357)
Transfer to Stage 2	(80,526)	(9,737)	-	(90,263)
Transfer to Stage 3	93,310	74,358	90,263	257,931
Transfer from other Stages	(137,229)	(10,201)	1,089,587	942,157
31.12.2020	802,035	212,915	10,379,168	11,394,118

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

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

In thousands of RSD

31.12.2020	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

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

In thousands of RSD

31.12.2019	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	40,137,803	563,216	993,518	41,694,537	55,720	18,722	487,612	562,054	41,132,483
Cash Loans	34,456,268	369,714	250,163	35,076,145	161,194	19,467	196,477	377,138	34,699,007
Agricultural Loans	9,316,462	121,427	275,822	9,713,711	103,186	12,406	127,555	243,147	9,470,564
Other Loans	4,793,469	44,820	159,663	4,997,952	36,250	1,080	153,449	190,779	4,807,173
Micro Business	7,937,996	779,822	549,999	9,267,817	127,880	21,209	286,938	436,027	8,831,790
Total retail	96,641,998	1,878,999	2,229,165	100,750,162	484,230	72,884	1,252,031	1,809,145	98,941,017
Large corporate clients	30,404,295	4,177,915	6,273,603	40,855,813	81,782	43,052	3,714,019	3,838,853	37,016,960
Middle corporate clients	7,749,403	178,584	1,753,845	9,681,832	31,326	2,997	1,335,764	1,370,087	8,311,745
Small corporate clients	3,571,658	95,640	1,149,243	4,816,541	20,410	781	656,700	677,891	4,138,650
State owned clients	21,847,484	413,490	170,672	22,431,646	110,876	5,464	132,088	248,428	22,183,218
Other	10,070,072	694	4,266,136	14,336,902	145,871	21	3,930,037	4,075,929	10,260,973
Total corporate	73,642,912	4,866,323	13,613,499	92,122,734	390,265	52,315	9,768,608	10,211,188	81,911,546
Total	170,284,910	6,745,322	15,842,664	192,872,896	874,495	125,199	11,020,639	12,020,333	180,852,563
Due from banks	24,737,891	-	214,417	24,952,308	3,933	-	214,417	218,350	24,733,958

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in impairement allowance of receivables in the Balance Sheet

In thousands of RSD

	31.12.2019	Increase in impairment allowance	Reversal of impairment allowance	Other changes	31.12.2020
Total retail	1,809,145	1,100,253	(1,138,441)	(140,024)	1,630,933
Total corporate	10,211,188	3,093,106	(2,074,035)	(1,467,074)	9,763,185
Total	12,020,333	4,193,359	(3,212,476)	(1,607,098)	11,394,118
Due from banks	218.351	42,256	(41,992)	(214,447)	4,168

** Other changes relate to the transfer of 100% written-off receivables from balance sheet to off-balance sheet records, exchange rate differences and other changes.*

Problematic loans and receivables – Stage 3

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

Non-problematic loans and receivables – Stage 1 and 2

For non-problematic receivables in Stages 1 and 2 (rating categories 1, 2, 3 and subcategory 4), impairment is assessed on a group Stage (non-impaired receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly Stage.
The impairment assessment on a group basis is based on the expected credit loss in accordance with probability unfulfilled commitments over the next 12 months (receivables in Stage 1), unless there is a significant deterioration of credit risks in relation to the time of the initial recognition, when you estimate credit losses made on the basis of the probability of the neizmirenja obligations for a period of life of the instrument (claims at Stage 2). By appreciating specificity in dealings with clients, in particular establishes the migration for corporate clients, micro business, retail by product types.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Receivables by days past due – Stage 1 and Stage 2

In thousands of RSD

	Stage 1						Stage 2					
31.12.2020	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	45,133,418	43,610	-	-	-	45,177,028	551,533	3,053	88,293	45,813	-	688,692
Cash Loans	34,256,339	2,880,564	-	-	-	37,136,903	165,285	118,593	248,709	105,353	-	637,940
Agricultural Loans	11,219,296	255,850	-	-	-	11,475,146	68,022	20,534	82,356	51,682	-	222,594
Other Loans	3,970,234	307,249	-	-	-	4,277,483	33,645	10,294	27,028	11,203	-	82,170
Micro Business	7,925,617	392,473	-	-	-	8,318,090	1,042,963	302,015	73,106	11,624	-	1,429,708
Total retail	102,504,904	3,879,746	-	-	-	106,384,650	1,861,448	454,489	519,492	225,675	-	3,061,104
Large corporate clients	24,094,092	70,187	-	-	-	24,164,279	6,138,683	92,512	-	-	-	6,231,195
Middle corporate clients	7,773,498	103,396	-	-	-	7,876,894	629,973	107,051	3,073	-	-	740,097
Small corporate clients	2,864,269	94,820	-	-	-	2,959,089	225,281	30,505	42,511	-	-	298,297
State owned clients	21,439,880	375,505	-	-	-	21,815,385	595,476	61,171	107,407	-	-	764,054
Other	8,717,394	0	-	-	-	8,717,394	1,075	-	-	-	-	1,075
Corporate clients	190,684,456	5,878,488	-	-	-	196,562,944	13,142,602	1,483,976	1,292,984	486,332	-	16,405,894
Total	167,394,037	4,523,654	-	-	-	171,917,691	9,451,936	745,728	672,483	225,675	-	11,095,822
Out of which: restructured	-	-	-	-	-	-	287,926	24,334	110,022	2,279	-	424,561
Due from banks	18,146,238	-	-	-	-	18,146,238	-	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Receivables by days past due – Stage 1 and Stage 2

In thousands of RSD

31.12.2019	Stage 1 Not due	Stage 1 Due up to 30 days	Stage 1 From 31-60 days	Stage 1 From 61-90 days	Stage 1 Over 90 days	Stage 1 Total	Stage 2 Not due	Stage 2 Due up to 30 days	Stage 2 From 31-60 days	Stage 2 From 61-90 days	Stage 2 Over 90 days	Stage 2 Total
Housing Loans	40,126,089	11,714	-	-	-	40,137,803	451,982	0	45,275	65,960	-	563,217
Cash Loans	32,496,413	1,959,855	-	-	-	34,456,268	133,784	78,369	119,376	38,185	-	369,714
Agricultural Loans	9,182,949	133,513	-	-	-	9,316,462	37,608	2,214	72,794	8,813	-	121,429
Other Loans	4,494,377	299,092	-	-	-	4,793,469	11,870	10,364	16,342	6,244	-	44,820
Micro Businesses	7,230,512	707,484	-	-	-	7,937,996	446,233	325,680	6,485	1,423	-	779,821
Retail clients	93,530,340	3,111,658	-	-	-	96,641,998	1,081,477	416,627	260,272	120,625	-	1,879,001
Large corporate clients	30,091,092	313,203	-	-	-	30,404,295	3,753,403	424,512	-	-	-	4,177,915
Middle corporate clients	7,523,028	226,375	-	-	-	7,749,403	108,098	70,483	3	-	-	178,584
Small corporate clients	3,474,992	96,666	-	-	-	3,571,658	68,993	26,647	-	-	-	95,640
State owned clients	21,034,676	812,809	-	-	-	21,847,485	394,081	19,409	-	-	-	413,490
Other	10,064,196	5,875	-	-	-	10,070,071	694	-	-	-	-	694
Corporate clients	72,187,984	1,454,928	-	-	-	73,642,912	4,325,269	541,051	3	-	-	4,866,323
Total	165,718,324	4,566,585	-	-	-	170,284,909	5,406,746	957,678	260,274	120,624	-	6,745,322
Out of which: restructured	-	-	-	-	-	-	580,045	420,212	439	1,656	-	1,002,354
Due from banks	22,532,883	2,205,008	-	-	-	24,737,891	-	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

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

In thousands of RSD

	31.12.2020					31.12.2019				
	Change of IR	Restructuring	Due up to 30 days	Other	Total	Change of IR	Restructuring	Due up to 30 days	Other	Total
Housing Loans	28,535	252,908	37,823	369,426	688,692	8,507	226,849	119,028	208,833	563,216
Cash Loans	3,428	316	88,172	546,024	637,940	15,530	16,749	156,641	180,795	369,714
Agricultural Loans	-	6,138	113,976	102,480	222,594	9,508	7,077	99,486	5,356	121,427
Other Loans	268	15,371	12,746	53,785	82,170	860	-	28,369	15,591	44,820
Micro Businesses	344,515	-	165,998	919,195	1,429,708	258,850	5,321	26,784	488,865	779,821
Retail clients	376,746	274,733	418,715	1,990,910	3,061,104	293,254	255,997	430,308	899,440	1,878,999
Large corporate clients	4,641,240	-	-	1,589,955	6,231,195	3,441,528	736,238	-	150	4,177,915
Middle corporate clients	7,498	-	3,073	729,526	740,097	50,494	-	-	128,090	178,584
Small corporate clients	23,756	-	115,073	159,468	298,297	11,075	10,119	-	74,446	95,640
State owned clients	439,346	149,828	184	174,696	764,054	97,272	-	-	316,217	413,490
Other	-	-	-	1,075	1,075	-	-	-	694	694
Corporate clients	5,111,840	149,828	118,330	2,654,720	8,034,718	3,600,369	746,357	-	519,598	4,866,323
Total	5,488,586	424,561	537,045	4,645,630	11,095,822	3,893,622	1,002,354	430,308	1,419,038	6,745,322
Due from banks	-	-	-	-	-	-	-	-	-	-

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Impairment allowance according to the criterion of inclusion in Stage 2

In thousands of RSD

	31.12.2020					31.12.2019				
	Change of IR	Restructuring	Due up to 30 days	Other	Total	Change of IR	Restructuring	Due up to 30 days	Other	Total
Housing Loans	98	1,524	118	2,317	4,057	147	13,526	2,133	2,916	18,722
Cash Loans	49	-	13,681	18,999	32,729	734	463	9,766	8,504	19,467
Agricultural Loans	-	248	15,797	5,805	21,850	112	326	11,707	262	12,406
Other Loans	1	3,393	730	722	4,846	34	-	729	317	1,080
Micro Businesses	14,640	-	6,195	17,345	38,180	9,718	2	719	10,770	21,209
Retail clients	14,788	5,165	36,521	45,188	101,662	10,744	14,316	25,055	22,769	72,884
Large corporate clients	60,007	-	-	2,297	62,304	38,008	4,895	150	-	43,053
Middle corporate clients	455	-	29	5,606	6,090	2,269	-	729	-	2,997
Small corporate clients	1,928	-	655	2,354	4,937	45	32	704	-	781
State owned clients	32,907	2,805	1	2,151	37,864	4,733	-	731	-	5,464
Other	-	-	-	58	58	-	-	21	-	21
Corporate clients	95,297	2,805	685	12,466	111,253	45,055	4,927	2,334	-	52,315
Total	110,085	7,970	37,206	57,654	212,915	55,799	19,243	27,389	22,769	125,199
Due from banks	-	-	-	-	-	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

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

In thousands of RSD

31.12.2020	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	267,714	1,130	71,295	46,172	518,889	905,200
Cash Loans	41,801	19,780	15,113	51,643	149,208	277,545
Agricultural Loans	48,529	10,887	20,242	11,218	191,808	282,684
Other Loans	17,941	2,375	2,224	1,091	175,258	198,889
Micro Businesses	33,232	18,287	36,035	19,314	333,867	440,735
Retail clients	409,217	52,459	144,909	129,438	1,369,030	2,105,053
Large corporate clients	1,111,839	-	303,977	-	5,013,505	6,429,321
Middle corporate clients	194,086	-	41,773	4,094	291,706	531,659
Small corporate clients	37,004	-	34,525	10,472	741,752	823,753
State owned clients	3,418,323	-	-	-	170,325	3,588,648
Other	196,673	-	-	-	4,001,587	4,198,260
Corporate clients	4,957,925	-	380,275	14,566	10,218,875	15,571,641
Total	5,367,142	52,459	525,184	144,004	11,587,905	17,676,694
Out of which: restructured	4,003,837	5,009	56,271	19,125	5,037,927	9,122,169
Due from banks	-	-	-	-	-	-

Receivables with a delay of less than 90 days in Stage 3 relate to clients who have financial difficulties and the Bank has estimated that there is a risk of default by the end of the loan repayment, given that when considering the same, a set of different criteria is used.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

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

In thousands of RSD

31.12.2019	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	272,633	5,087	30,698	60,758	624,342	993,518
Cash Loans	54,228	18,653	14,590	11,590	151,102	250,163
Agricultural Loans	67,141	9,151	5,927	5,333	188,270	275,822
Other Loans	6,490	563	641	55	151,914	159,663
Micro Businesses	13,633	76,424	7,607	16,416	435,918	549,998
Retail clients	414,125	109,878	59,463	94,152	1,551,546	2,229,164
Large corporate clients	1,652,779	52,063	55,309	-	4,513,452	6,273,603
Middle corporate clients	199,802	-	-	-	1,554,043	1,753,845
Small corporate clients	22,076	-	-	6,556	1,120,610	1,149,242
State owned clients	334	-	-	-	170,337	170,671
Other	1,319,701	-	-	-	2,946,437	4,266,138
Corporate clients	3,194,692	52,063	55,309	6,556	10,304,879	13,613,499
Total	3,608,817	161,941	114,772	100,708	11,856,425	15,842,663
Out of which: restructured	1,424,595	58,846	71,849	20,037	5,766,584	7,341,911
Due from banks	214,417	-	-	-	-	214,417

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2 Problematic receivables

Participation of problematic receivables, Stage 3 in total loan

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%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2 Problematic receivables (continued)

Participation of problematic receivables, Stage 3 in total loans

In thousands of RSD

31.12.2019	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructered receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	100,750,162	1,809,145	2,229,165	527,968	1,252,031	2.21%	1,903,216
Housing Loans	41,694,537	562,054	993,518	209,731	487,612	2.38%	984,826
Cash Loans	35,076,145	377,138	250,163	11,929	196,477	0.71%	112,631
Agricultural Loans	9,713,711	243,147	275,822	44,886	127,555	2.84%	255,180
Other	4,997,953	190,779	159,663	-	153,449	3.19%	598
Micro Businesses	9,267,816	436,027	549,999	261,422	286,938	5.93%	549,981
Corporate clients	92,122,734	10,211,188	13,613,499	6,813,943	9,768,608	14.78%	12,126,609
Agriculture	4,169,867	64,802	60,217	-	56,463	1.44%	60,385
Manufacturing Industry	13,054,066	1,214,467	2,958,078	2,879,046	1,165,968	22.66%	2,958,078
Electric Energy	91,586	1,116	-	-	-	0.00%	-
Construction	9,048,163	500,834	673,359	10,276	486,253	7.44%	673,708
Wholesale and Retail	23,100,789	567,209	845,424	607,050	455,214	3.66%	839,099
Service Activities	13,284,210	1,301,523	1,579,328	1,571,626	1,220,425	11.89%	1,578,182
Real Estate Activities	5,182,425	490,297	1,031,805	687,601	482,859	19.91%	1,029,573
Other	24,191,628	6,070,940	6,465,288	1,058,344	5,901,426	26.73%	4,987,584
Total	192,872,896	12,020,333	15,842,664	7,341,911	11,020,639	8.21%	14,029,825
Due from banks	24,952,308	218,350	214,417	-	214,417	0.86%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2 Problematic receivables (continued)

Changes in problematic receivables *In thousands of RSD*

	31.12.2019	New problematic receivables – Stage 3	Decrease in problematic receivables – Stage 3	Foreign exchange rate effect	Other changes	31.12.2020	Net value at the end of the year
Housing Loans	993,518	156,260	(197,421)	(55)	(47,102)	905,200	488,760
Cash Loans	250,163	164,644	(111,487)	(2)	(25,773)	277,545	54,407
Agricultural Loans	275,822	91,262	(60,616)	(24)	(23,760)	282,684	160,613
Other Loans	159,663	82,719	(48,548)	(0)	5,055	198,889	20,424
Micro Businesses	549,999	167,935	(183,436)	(43)	(93,720)	440,735	221,110
Retail	2,229,165	662,820	(601,508)	(124)	(185,300)	2,105,053	945,314
Large corporate clients	6,273,603	363,402	(119,258)	(656)	(87,770)	6,429,321	2,754,239
Middle corporate clients	1,753,845	8,781	(1,167,515)	(124)	(63,328)	531,659	337,257
Small corporate clients	1,149,243	78,745	(219,582)	(60)	(184,593)	823,753	430,408
State owned clients	170,672	3,418,323	(334)	(13)	0	3,588,648	2,501,401
Other	4,266,136	0	(185,511)	(109)	117,744	4,198,260	328,907
Corporate clients	13,613,499	3,869,251	(1,692,200)	(962)	(217,947)	15,571,641	6,352,212
Total	15,842,664	4,532,071	(2,293,708)	(1,086)	(403,247)	17,676,694	7,297,526
Due from banks	214,418	-	-	(18,914)	(195,504)	-	-

The decrase of restructured receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records at the parent Bank. Other changes relate to a partial increase/decrease in the amount of restructured receivables within one lot during the year and mostly to the partial collection at parent Bank.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Nonproblematic receivables (Stage 1 and Stage 2)

In thousands of RSD

	31.12.2020				31.12.2019			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	45,757,208	108,512	45,865,720	45,451,796	40,600,372	100,647	40,701,019	40,522,852
Cash Loans	37,579,003	195,840	37,774,843	10,494,298	34,666,856	159,126	34,825,982	10,813,597
Agricultural Loans	11,611,627	86,113	11,697,740	11,065,548	9,415,826	22,063	9,437,889	8,032,833
Other Loans	4,332,597	27,056	4,359,653	206,082	4,817,669	20,620	4,838,289	101,654
Micro Businesses	9,247,799	499,999	9,747,798	9,737,277	8,341,708	376,110	8,717,818	8,706,933
Retail	108,528,234	917,520	109,445,754	76,955,001	97,842,431	678,566	98,520,997	68,177,869
Large corporate clients	24,713,727	5,681,747	30,395,474	30,401,513	31,140,683	3,441,528	34,582,211	34,670,639
Middle corporate clients	8,536,154	80,837	8,616,991	8,619,042	7,869,442	58,545	7,927,987	7,916,337
Small corporate clients	3,059,170	198,216	3,257,386	3,243,678	3,631,327	35,971	3,667,298	3,665,949
State owned clients	17,249,553	5,329,886	22,579,439	22,742,430	14,856,901	7,404,073	22,260,974	22,554,545
Other	4,404,927	4,313,542	8,718,469	6,899,846	4,862,214	5,208,551	10,070,765	7,645,774
Corporate Clients	57,963,531	15,604,228	73,567,759	71,906,509	62,360,567	16,148,668	78,509,235	76,453,244
Total	166,491,765	16,521,748	183,013,513	148,861,510	160,202,998	16,827,234	177,030,232	144,631,113
Due from banksl	18,146,238	-	18,146,238	-	24,737,891	-	24,737,891	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In thousands of RSD

31.12.2020	Gross exposure	Impairment of gross exposure	Resturctured receivables	Impairment of restructured receivables	Resturctured receivables stage 2	Impairment of restructured receivables-stage 2	Resturctured receivables stage 3	Impairment of restructured receivables-stage 3	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	111,550,807	1,630,933	615,523	143,459	274,733	5,165	340,790	138,294	0.55%	608,443
Housing Loans	46,770,920	437,345	398,608	57,930	252,908	1,524	145,700	56,406	0.85%	398,608
Cash Loans	38,052,388	377,596	6,139	4,564	316	0	5,823	4,564	0.02%	1,095
Agricultural Loans	11,980,424	236,165	54,787	21,111	6,138	248	48,649	20,863	0.46%	54,481
Other	4,558,542	206,780	31,755	17,862	15,371	3,393	16,384	14,469	0.70%	30,025
Micro Businesses	10,188,533	373,047	124,234	41,992	-	-	124,234	41,992	1.22%	124,234
Corporate Clients	89,139,400	9,763,185	8,931,207	4,245,431	149,828	2,805	8,781,379	4,242,626	10.02%	8,931,208
Agriculture	2,876,122	13,199	-	-	-	-	-	-	0.00%	-
Manufacturing Industry	12,077,559	1,162,333	2,796,569	1,095,279	-	-	2,796,569	1,095,279	23.16%	2,796,569
Electric Energy	3,529,051	15,861	-	-	-	-	-	-	0.00%	-
Construction	12,650,343	547,050	7,057	3,516	-	-	7,057	3,516	0.06%	7,057
Wholesale and Retail	17,314,441	435,322	503,610	307,622	-	-	503,610	307,622	2.91%	503,610
Service Activities	11,828,689	2,313,040	4,582,130	2,235,253	-	-	4,582,130	2,235,253	38.74%	4,582,130
Real Estate Activities	8.092.592	491,452	711,166	425,806	23,678	107	687,488	425,699	8,79%	711,167
Other	20,770,603	4,784,928	330,675	177,955	126,150	2,698	204,525	175,257	1.59%	330,675
Total	200,690,207	11,394,118	9,546,730	4,388,890	424,561	7,970	9,122,169	4,380,920	4.76%	9,539,651
Due from banks	18,146,238	4,168	-	-	-	-	-	-	0.00%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

31.12.2019	Gross exposure	Impairment of gross exposure	Resturctured receivables	Impairment of restructured receivables	Resturctured receivables stage 2	Impairment of restructured receivables-stage 2	Resturctured receivables stage 3	Impairment of restructured receivables-stage 3	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	100,750,162	1,809,145	783,965	220,652	255,997	14,316	527,968	206,336	0.78%	781,141
Housing Loans	41,694,538	562,054	436,581	98,673	226,850	13,525	209,731	85,147	1.05%	436,581
Cash Loans	35,076,145	377,138	28,678	9,606	16,749	463	11,929	9,143	0.08%	26,246
Agricultural Loans	9,713,711	243,147	51,963	8,103	7,077	326	44,886	7,778	0.53%	51,571
Other	4,997,952	190,779	-	-	-	-	-	-	0.00%	-
Micro Businesses	9,267,816	436,027	266,743	104,270	5,321	2	261,422	104,268	2.88%	266,743
Corporate Clients										
Total retail	92,122,734	10,211,188	7,560,299	4,081,967	746,357	4,927	6,813,943	4,077,040	8.21%	7,560,299
Agriculture	4,169,866	64,802	-	-	-	-	-	-	-	-
Manufacturing Industry	13,054,066	1,214,467	2,879,045	1,139,334	-	-	2,879,046	1,139,334	22.05%	2,879,045
Electric Energy	91,586	1,116	-	-	-	-	-	-	-	-
Construction	9,048,163	500,834	746,514	10,460	736,238	4,895	10,276	5,565	8.25%	746,514
Wholesale and Retail	23,100,789	567,209	609,526	337,956	2,476	32	607,050	337,924	2.64%	609,526
Service Activities	13,284,210	1,301,523	1,571,626	1,219,163	0	-	1,571,626	1,219,163	11.83%	1,571,626
Real Estate Activities	5,182,425	490,297	695,244	452,272	7,643	-	687,601	452,272	13,42%	695,244
Other	24,191,629	6,070,940	1,058,344	922,782	-	-	1,058,344	922,782	4.37%	1,058,344
	192,872,896	12,020,333	8,344,264	4,302,619	1,002,354	19,243	7,341,911	4,283,376	4.33%	8,341,440
Due from banks	24,952,308	218,351	-	-	-	-	-	-	0.00%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousands of RSD

	31.12.2019	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes*	31.12.2020	Net
Housing Loans	436,581	23,491	(43,765)	(30)	(17,669)	398,608	340,678
Cash Loans	28,678	5,355	(772)	(1)	(27,121)	6,139	1,575
Agricultural Loans	51,963	4,549	(1,308)	(5)	(412)	54,787	33,676
Other Loans	-	7,033	-	-	24,722	31,755	13,893
Micro Businesses	266,743	48	(72,813)	(17)	(69,727)	124,234	82,242
Retail	783,965	40,476	(118,658)	(53)	(90,207)	615,523	472,064
Large corporate clients	6,158,472	-	(833,591)	(657)	(27,604)	5,296,620	2,230,512
Middle corporate clients	1,074,116	-	(678,811)	(104)	(10,243)	384,958	281,474
Small corporate clients	327,711	-	(10,119)	(5)	(146,066)	171,521	28,972
State owned clients	-	3,078,108	-	-	-	3,078,108	2,144,818
Other	-	-	-	-	-	-	-
Corporate clients	7,560,299	3,078,108	(1,522,521)	(766)	(183,913)	8,931,207	4,685,776
Total	8,344,264	3,118,584	(1,641,179)	(819)	(274,120)	9,546,730	5,157,840
Due from banks	-	-	-	-	-	-	-

**The increase in restructured receivables is a consequence of the transit into NPL status of clients with whom receivables were restructured. The decrease in restructured receivables mostly refers to the transfer of 100% of impaired receivables to off-balance sheet records and the collection of restructured receivables in full for restructured PL placements. Other changes relate to a partial increase / decrease in the amount of restructured receivables within one lot during the year, most notably to partial collection.*

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the 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.

4.1.5. 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.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (concentration)

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

In thousands of RSD

31.12.2020	Non problematic receivables					Problematic receivables				
	Serbia	Montenegro	B&H	EU	Other	Serbia	Montenegro	B&H	EU	Other
Retail	109,445,754	-	-	-	-	2,105,053	-	-	-	-
Housing Loans	45,865,720	-	-	-	-	905,200	-	-	-	-
Cash Loans	37,774,843	-	-	-	-	277,545	-	-	-	-
Agricultural Loans	11,697,740	-	-	-	-	282,684	-	-	-	-
Other	4,359,653	-	-	-	-	198,889	-	-	-	-
Micro Businesses	9,747,798	-	-	-	-	440,735	-	-	-	-
Corporate Clients	64,849,738	2,494,280	6,223,741	-	-	15,571,641	-	-	-	-
Agriculture	2,867,120	-	-	-	-	9,002	-	-	-	-
Manufacturing Industry	9,230,133	-	-	-	-	2,847,426	-	-	-	-
Electric Energy	3,529,051	-	-	-	-	-	-	-	-	-
Construction	11,980,938	-	-	-	-	669,404	-	-	-	-
Wholesale and Retail	16,641,657	-	-	-	-	672,784	-	-	-	-
Service Activities	7,196,670	-	-	-	-	4,632,020	-	-	-	-
Real Estate Activities	6,736,204	-	-	-	-	1,356,389	-	-	-	-
Other	6,667,965	2,494,280	6,223,741	-	-	5,384,616	-	-	-	-
Total	174,295,492	2,494,280	6,223,741	-	-	17,676,694	-	-	-	-
Due from banks	4,542,713	538,842	320,686	11,213,216	1,530,781	-	-	-	-	-

Total credit exposure nonproblematic receivables are Montenegro and Bosnia and Herzegovina and are located in Stage 1.
Depending on general economic trends and developments in individual industrial sectors, the Bank members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (concentration)

In thousands of RSD

	Non problematic receivables					Problematic receivables				
31.12.2019	Serbia	Montenegro	B&H	EU	Other	Serbia	Montenegro	B&H	EU	Other
Retail	98,520,997	-	-	-	-	2,229,165	-	-	-	-
Housing Loans	40,701,019	-	-	-	-	993,518	-	-	-	-
Cash Loans	34,825,982	-	-	-	-	250,163	-	-	-	-
Agricultural Loans	9,437,889	-	-	-	-	275,822	-	-	-	-
Other	4,838,289	-	-	-	-	159,663	-	-	-	-
Micro Businesses	8,717,818	-	-	-	-	549,999	-	-	-	-
Corporate Clients	68,444,773	2,782,938	7,281,524	-	-	13,613,499	-	-	-	-
Agriculture	4,109,650	-	-	-	-	60,217	-	-	-	-
Manufacturing Industry	10,095,988	-	-	-	-	2,958,078	-	-	-	-
Electric Energy	91,586	-	-	-	-	0	-	-	-	-
Construction	8,374,803	-	-	-	-	673,359	-	-	-	-
Wholesale and Retail	22,255,366	-	-	-	-	845,424	-	-	-	-
Service Activities	11,704,882	-	-	-	-	1,579,328	-	-	-	-
Real Estate Activities	4,150,620	-	-	-	-	1,031,805	-	-	-	-
Other	7,661,878	2,782,938	7,281,524	-	-	6,465,289	-	-	-	-
Total	166,965,770	2,782,938	7,281,524	-	-	15,842,664	-	-	-	-
Due from banks	5,734,421	8,720	86,932	5,465,156	13,442,662	-	-	-	-	214,417

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (concentration)

Loans and receivables to customers by geographical concentration of exposures in Serbia

In thousands of RSD

	31.12.2020				31.12.2019			
	Vojvodina	Belgrade	Central Serbia	Total	Vojvodina	Belgrade	Central Serbia	Total
Total retail	24,638,429	47,508,396	39,403,982	111,550,807	21,993,459	43,544,444	35,212,259	100,750,162
Corporate clients	31,230,721	35,992,358	13,198,299	80,421,378	26,806,493	39,856,528	15,395,251	82,058,272
Total	55,869,150	83,500,754	52,602,281	191,972,185	48,799,952	83,400,972	50,607,510	182,808,434

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Securities

In thousands of RSD

	31.12.2020		31.12.2019	
	Gross	Net	Gross	Net
Securities:				
-at fair value trough profit and loss	8,308,106	8,308,106	10,289,019	10,289,019
-at fair value trough other comprehensive income	144,626,430	144,625,977	128,181,134	128,180,532
-at amortized cost	846,000	842,240	-	-
Total	153,780,536	153,776,323	138,470,153	138,469,551

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

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

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

Securities held at amortized cost relate to corporate bonds.

4.1.7. Collateral against credit risk (collateral)

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

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

In thousands of RSD

	Stage 1					Stage 2				
31.12.2020	Real Estate	Deposits	Guarantees	Other collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	42,495,115	11,880	-	2,259,057	44,766,052	657,595	-	-	28,149	685,744
Cash Loans	6,090	564,087	-	9,681,758	10,251,935	127	10,204	-	232,032	242,363
Agricultural Loans	4,297,713	9,271	31,422	6,535,348	10,873,754	87,366	3,269	-	101,159	191,794
Other Loans	77,486	2,479	-	111,040	191,005	3,579	439	-	11,059	15,077
Micro business	643,012	552,313	3,871,910	3,098,204	8,165,439	397,175	181,335	142,226	851,102	1,571,838
Total retail	47,519,416	1,140,030	3,903,332	21,685,407	74,248,185	1,145,842	195,247	142,226	1,223,501	2,706,816
Large corporate clients	11,551,288	178,205	3,416,827	8,803,852	23,950,172	5,660,395	-	220,144	570,802	6,451,341
Middle corporate clients	2,486,091	379,558	2,006,189	2,817,659	7,689,497	324,956	-	193,408	411,181	929,545
Small corporate clients	732,488	159,811	858,063	1,121,968	2,872,330	141,153	92	72,959	157,144	371,348
State owned clients	1,535,845	-	4,872,521	15,584,509	21,992,875	19,403	-	-	730,152	749,555
Other	-	-	-	6,899,846	6,899,846	-	-	-	-	-
Corporate clients	16,305,712	717,574	11,153,600	35,227,834	63,404,720	6,145,907	92	486,511	1,869,279	8,501,789
Total	63,825,128	1,857,604	15,056,932	56,913,241	137,652,905	7,291,749	195,339	628,737	3,092,780	11,208,605
Of which: restructured	-	-	-	-	-	249,991	-	-	172,863	422,854
Receivables from banks	-	-	-	-	-	-	-	-	-	-

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

In thousands of RSD

31.12.2020	Stage 3				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	857,295	-	-	37,892	895,187
Cash Loans	533	813	-	102,346	103,692
Agricultural Loans	198,608	-	-	65,705	264,313
Other Loans	3,454	510	-	14,952	18,916
Micro business	217,186	-	10,481	223,589	451,256
Total retail	1,277,076	1,323	10,481	444,484	1,733,364
Large corporate clients	5,324,586	60	-	1,098,637	6,423,283
Middle corporate clients	447,496	-	-	82,111	529,607
Small corporate clients	254,436	-	20,213	562,812	837,461
State owned clients	568,989	-	-	2,856,666	3,425,655
Other	2,755,593	-	-	124	2,755,717
Corporate clients	9,351,100	60	20,213	4,600,350	13,971,723
Total	10,628,176	1,383	30,694	5,044,834	15,705,087
Of which: restructured	5,830,895	-	-	3,285,902	9,116,797
Receivables from banks	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

In thousands of RSD

31.12.2019	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	37,671,653	12,071	-	2,276,421	39,960,145	537,227	-	-	25,479	562,706
Cash Loans	79,624	379,175	-	10,182,910	10,641,709	3,716	10,779	-	157,393	171,888
Agricultural Loans	3,938,071	13,765	5,272	3,964,160	7,921,268	47,139	845	-	63,582	111,566
Other Loans	-	3,252	-	89,540	92,792	-	26	-	8,836	8,862
Micro business	1,003,601	680,428	-	6,243,075	7,927,104	183,232	106,480	-	490,117	779,829
Total reatail	42,692,949	1,088,691	5,272	22,756,106	66,543,018	771,314	118,130	-	745,407	1,634,851
Large corporate clients	16,292,099	192,603	2,469,948	11,449,633	30,404,283	3,423,605	-	-	754,322	4,177,927
Middle corporate clients	2,536,852	493,534	29,424	4,677,942	7,737,752	16,152	-	-	162,433	178,585
Small corporate clients	949,624	145,321	-	2,475,364	3,570,309	31,488	12,859	-	51,294	95,641
State owned clients	838,223	-	4,871,883	16,137,378	21,847,484	-	-	-	413,490	413,490
Other	-	-	-	7,645,774	7,645,774	-	-	-	-	-
Corporate clients	20,616,798	831,458	7,371,255	42,386,091	71,205,602	3,471,245	12,859	-	1,381,539	4,865,643
Total	63,309,747	1,920,149	7,376,527	65,142,197	137,748,620	4,242,559	130,989	-	2,126,946	6,500,494
Of which: restructured	-	-	-	-	-	234,926	5,242	-	760,332	1,000,500
Receivables from banks	-	-	-	-	-	-	-	-	-	-

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

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

Loans and receivables from customers covered by collateral

In thousands of RSD

31.12.2019	Stage 3				
	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	955,804	-	-	29,022	984,826
Cash Loans	3,576	12,032	-	97,023	112,631
Agricultural Loans	200,440	-	-	54,740	255,180
Other Loans	-	122	-	477	599
Micro business	370,819	246	-	178,916	549,981
Total retail	1,530,639	12,400	-	360,178	1,903,217
Large corporate clients	5,176,426	40	-	1,093,501	6,269,967
Middle corporate clients	1,540,779	-	-	211,115	1,751,894
Small corporate clients	932,356	-	-	216,886	1,149,242
State owned clients	7,306	-	334	-	7,640
Other	2,759,593	-	-	185,635	2,945,228
Corporate clients	10,416,460	40	334	1,707,137	12,123,971
Total	11,947,099	12,440	334	2,067,314	14,027,188
Of which: restructured	6,394,982	-	-	945,958	7,340,940
Receivables from banks	-	-	-	-	-

4 RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

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

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

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

In thousands of RSD

	31.12.2020	31.12.2019
Less than 50%	18,976,984	25,360,866
50% - 70%	28,659,176	20,106,604
71% - 100%	28,222,903	22,014,570
101% - 150%	3,373,854	6,032,339
More than 150%	6,424,904	7,166,289
Total exposure	85,657,821	80,680,668
Average LTV Less than 50%	67.09%	64.10%

4.1.8. Foreclosed assets

Foreclosed assets from Bank in the process of collecting placements are presented in the following table:

In thousands of RSD

	Residential Premises	Business Premises	Equipment	Land and Forests	Total
31.12.2019	75,116	1,926,363	119,229	162,889	2,283,597
Acquisition	8,719	306	-	1,308	10,333
Other	-	-	(684)	-	(684)
31.12.2020	83,835	1,926,669	118,545	164,197	2,293,246
Impairment allowance	35,006	884,466	94,482	48,431	1,062,385
Net	48,829	1,042,203	24,063	115,766	1,230,861

4. RISK MANAGEMENT (continued)

4.2. 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;
- 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.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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 2020 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	
	2020	2019	2020	2019	2020	2019
On the day	4.06	4.08	3.94	3.83	405%	410%
Average for the period	4.17	4.22	4.00	3.95	385%	432%
Maximum for the period	4.73	4.75	4.50	4.43	413%	495%
Minimum for the period	3.42	3.55	3.27	3.38	295%	391%

During 2020 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.

Compliance with internally defined liquidity limits on the last day:

	Limits	2020	2019
GAP up to 1 month / Total assets	Max (10%)	0.97%	1.71%
Cumulative GAP up to 3 months / Total assets	Max (20%)	0.20%	1.83%

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.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	80,045,107	-	-	-	-	80,045,107
Loans and receivables due from other banks and other financial institutions	13,341,137	1,191,407	216,874	3,392,652	-	18,142,070
Loans and receivables due from customers	7,514,766	8,096,112	37,469,686	89,570,644	46,644,881	189,296,089
Financial assets (securities)	508,922	5,558,437	12,956,168	110,831,363	23,921,433	153,776,323
Other assets	1,138,614	983,624	573,006	-	-	2,695,244
Total	102,548,546	15,829,580	51,215,734	203,794,659	70,566,314	443,954,833
Deposits and other liabilities due to banks, other financial institutions and central bank	4,887,487	600	80,664	20,564	-	4,989,315
Deposits and other liabilities due to customors	295,543,959	14,110,912	35,881,120	25,954,180	1,209,230	372,699,401
Other liabilities	1,644,087	295,806	866,764	496,016	26,373	3,329,046
Total	302,075,533	14,407,318	36,828,548	26,470,760	1,235,603	381,017,762
Net liquidity gap						
As of December 31,2020	(199,526,987)	1,422,262	14,387,186	177,323,899	69,330,711	62,937,071
As of December 31,2019	(154,650,166)	5,801,156	12,127,356	139,813,989	58,662,015	61,754,350

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	67,558,219	-	-	-	-	67,558,219
Loans and receivables due from other banks and other financial institutions	23,827,458	256	15,500	890,744	-	24,733,958
Loans and receivables due from customers	11,134,447	8,530,912	39,435,619	80,203,795	41,547,790	180,852,563
Financial assets (securities)	3,154,455	4,939,204	13,939,546	97,736,585	18,699,761	138,469,551
Other assets	1,397,572	543,680	1,628,444	-	1,481	3,571,177
Total	107,072,151	14,014,052	55,019,109	178,831,124	60,249,032	415,185,468
Deposits and other liabilities due to banks, other financial institutions and central bank						
Deposits and other liabilities due to customors	3,570,345	90,624	1,219,573	141,214	-	5,021,756
Other liabilities	257,052,575	7,849,735	30,584,788	38,288,073	1,541,983	335,317,154
Total	1,099,397	272,537	11,087,392	587,848	45,034	13,092,208
Total	261,722,317	8,212,896	42,891,753	39,017,135	1,587,017	353,431,118
Net liquidity gap						
As of Decembar 31, 2019	(154,650,166)	5,801,156	12,127,356	139,813,989	58,662,015	61,754,350
As of Decembar 31, 2018	(140,270,556)	8,779,267	4,766,593	132,935,906	48,927,417	55,138,627

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

The 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.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	80,045,107	-	-	-	-	80,045,107
Loans and receivables due from other banks and other financial institutions	13,341,261	1,193,658	234,190	3,422,521	-	18,191,630
Loans and receivables due from customers	8,214,810	9,507,033	43,115,649	106,602,346	59,339,794	226,779,632
Financial assets (securities)	508,922	5,558,437	12,956,168	110,831,363	23,921,433	153,776,323
Other assets	1,138,614	983,624	573,006	-	-	2,695,244
Total	103,248,714	17,242,752	56,879,013	220,856,230	83,261,227	481,487,936
Deposits and other liabilities due to banks, other financial institutions and central bank	4,890,897	657	81,862	20,756	-	4,994,172
Deposits and other liabilities due to customers	295,667,334	14,285,938	36,288,520	27,440,382	1,483,388	375,165,562
Other liabilities	1,644,087	295,806	866,764	496,016	26,373	3,329,046
Total	302,202,318	14,582,401	37,237,146	27,957,154	1,509,761	383,488,780
Net liquidity gap						
As of December 31, 2020	(198,953,604)	2,660,351	19,641,867	192,899,076	81,751,466	97,999,156
As of December 31, 2019	(154,031,077)	7,047,125	17,091,802	152,309,641	69,057,915	91,475,406

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

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

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	67,558,219	-	-	-	-	67,558,219
Loans and receivables due from other banks and other financial institutions	23,868,946	569	18,629	892,565	-	24,780,709
Loans and receivables due from customers	11,855,610	9,870,701	44,800,742	94,080,850	52,268,229	212,876,132
Financial assets (securities)	3,154,455	4,939,204	13,939,546	97,736,585	18,699,761	138,469,551
Other assets	1,397,572	543,680	1,628,444	-	1,481	3,571,177
Total	107,834,802	15,354,154	60,387,361	192,710,000	70,969,471	447,255,788
Deposits and other liabilities due to banks, other financial institutions and central bank	3,577,589	91,751	1,243,209	147,939	-	5,060,488
Deposits and other liabilities due to customers	257,188,893	7,942,741	30,964,958	39,664,572	1,866,523	337,627,687
Other liabilities	1,099,397	272,537	11,087,392	587,848	45,033	13,092,207
Total	261,865,879	8,307,029	43,295,559	40,400,359	1,911,556	355,780,382
Net liquidity gap						
As of December 31, 2019	(154,031,077)	7,047,125	17,091,802	152,309,641	69,057,915	91,475,406
As of December 31, 2018	(139,731,065)	10,020,297	9,442,567	146,707,702	61,688,473	88,127,973

Undiscounted cash flows arising from monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates.

4. RISK MANAGEMENT (continued)

4.3 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.

4.3.1. 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.

4. RISK MANAGEMENT (continued)

4.3.1. Interest rate risk (continued)

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

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

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

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the 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.

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

	Limits	2020	2019
Relative GAP	Max 15%	(0.78%)	1.26%
Coefficient of Disparity	0.75 – 1.25	0.99	1.02

During 2020, 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:

	2020	2019
As of December 31	2.89%	3.47%
Average for period	3.83%	4.60%
Maximum for period	5.21%	5.56%
Minimum for period	2.89%	3.74%
Limit	10%	10%%

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.1. Interest rate risk (continued)

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2020.

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Interest Bearing	Total
Cash and cash funds held with the central bank	32,130,108	-	-	-	-	32,130,108	47,914,999	80,045,107
Loans and receivables due from other banks and other financial institutions	15,174,439	1,208,548	798,865	-	-	17,181,852	960,218	18,142,070
Loans and receivables due from customers	68,487,874	19,680,365	49,050,661	49,539,202	2,187,853	188,945,955	350,134	189,296,089
Financial assets (securities)	-	5,558,437	12,956,168	110,831,363	23,921,433	153,267,401	508,922	153,776,323
Other assets	-	-	-	-	-	-	2,695,244	2,695,244
Total	115,792,421	26,447,350	62,805,694	160,370,565	26,109,286	391,525,316	52,429,517	443,954,833
Deposits and other liabilities due to banks, other financial institutions and central bank	4,888,698	-	79,959	20,364	-	4,989,021	294	4,989,315
Deposits and other liabilities due to customors	296,892,340	13,923,428	34,318,094	25,388,336	1,150,697	371,672,895	1,026,506	372,699,401
Other liabilities	38,257	-	-	-	-	38,257	3,290,789	3,329,046
Total	301,819,295	13,923,428	34,398,053	25,408,700	1,150,697	376,700,173	4,317,589	381,017,762
Net liquidity gap as at: December 31, 2020	(186,026,874)	12,523,922	28,407,641	134,961,865	24,958,589	14,825,143	48,111,928	62,937,071
December 31, 2019	(169,137,057)	17,566,198	27,086,199	130,109,292	19,883,410	25,508,042	36,246,308	61,754,350

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.1. Interest rate risk (continued)

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

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Ineterst Bearing	Total
Cash and cash funds held with the central bank	22,839,264	-	-	-	-	22,839,264	44,718,955	67,558,219
Loans and receivables due from other banks and other financial institutions	23,594,947	-	15,500	67,595	-	23,678,042	1,055,916	24,733,958
Loans and receivables due from customers	46,079,592	22,595,240	54,075,083	55,114,328	2,584,885	180,449,128	403,435	180,852,563
Financial assets (securities)	2,641,823	4,939,204	13,939,546	97,736,585	18,699,761	137,956,919	512,632	138,469,551
Other assets	-	-	-	-	-	-	3,571,177	3,571,177
Total	95,155,626	27,534,444	68,030,129	152,918,508	21,284,646	364,923,353	50,262,115	415,185,468
Deposits and other liabilities due to banks, other financial institutions and central bank	3,690,041	90,624	1,219,568	21,214	-	5,021,447	309	5,021,756
Deposits and other liabilities due to customors	260,562,899	9,877,622	39,724,362	22,788,002	1,401,236	334,354,121	963,033	335,317,154
Other liabilities	39,743	-	-	-	-	39,743	13,052,465	13,092,208
Total	264,292,683	9,968,246	40,943,930	22,809,216	1,401,236	339,415,311	14,015,807	353,431,118
Net liquidity gap as of								
December 31, 2019	(169,137,057)	17,566,198	27,086,199	130,109,292	19,883,410	25,508,042	36,246,308	61,754,350
December 31, 2018	(143,449,929)	14,576,342	18,032,010	118,027,670	11,869,726	19,055,819	36,082,808	55,138,627

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.1. Interest rate risk (continued)

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

The management of the 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.

Risk of interest rate changes

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

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

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

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 b.p.
2020		
As at December 31,	512,267	(512,267)
2019		
As at December 31,	423,942	(423,942)

4. RISK MANAGEMENT (continued)

4.3.2. 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 31 December, 2020:

	December 31, 2020	December 31, 2019
Total risk foreign exchange position	1,327,082	1,257,900
Foreign exchange risk indicator	1.95%	1.98%
Regulatory limit	20%	20%

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.2. Foreign exchange risk (continued)

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

In thousands RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Totalo
Cash and cash funds held with the central bank	35,679,701	125,698	6,788,183	551,161	43,144,743	-	-	-	36,900,364	80,045,107
Loans and receivables due from other banks and other financial institutions	13,134,299	2,042,453	440,506	2,518,269	18,135,527	-	-	-	6,543	18,142,070
Loans and receivables due from customers	12,325,113	-	-	-	12,325,113	120,159,267	-	53,894	56,757,815	189,296,089
Financial assets (securities)	53,996,985	9,753,914	1,739,077	-	65,489,976	105,757	-	-	88,180,590	153,776,323
Other assets	1,160,479	58,069	1,153	384	1,220,085	-	-	-	1,475,159	2,695,244
Total	116,296,577	11,980,134	8,968,919	3,069,814	140,315,444	120,265,024	-	53,894	183,320,471	443,954,833
Deposits and other liabilities due to banks, other financial institutions and central bank	1,507,857	914,569	135,295	21,147	2,578,868	20,158	-	-	2,390,289	4,989,315
Deposits and other liabilities due to customers	234,754,045	10,829,680	8,829,245	2,946,069	257,359,039	144,321	-	-	115,196,041	372,699,401
Other liabilities	636,745	155,950	53,372	29,888	875,955	751,592	-	-	1,701,499	3,329,046
Total	236,898,647	11,900,199	9,017,912	2,997,104	260,813,862	916,071	-	-	119,287,829	381,017,762
Net Currency Position December 31, 2020	(120,602,070)	79,935	(48,993)	72,710	(120,498,418)	119,348,953	-	53,894	64,032,642	62,937,071
Net Currency Position December 31, 2019	(115,887,644)	433,090	(56,435)	79,697	(115,431,292)	116,905,290	-	60,074	60,220,278	61,754,350

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.2. Foreign exchange risk (continued)

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

In thousands RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,435,373	152,839	6,191,696	575,597	39,355,505	-	-	-	28,202,714	67,558,219
Loans and receivables due from other banks and other financial institutions	6,314,769	2,897,452	858,499	2,453,557	12,524,277	-	-	-	12,209,681	24,733,958
Loans and receivables due from customers	13,222,029	-	-	-	13,222,029	117,831,474	-	60,074	49,738,986	180,852,563
Financial assets (securities)	61,081,935	10,372,443	1,799,460	-	73,253,838	173,617	-	-	65,042,096	138,469,551
Other assets	412,158	165,375	787	1,585	579,905	-	-	-	2,991,272	3,571,177
Total	113,466,264	13,588,109	8,850,442	3,030,739	138,935,554	118,005,091	-	60,074	158,184,749	415,185,468
Deposits and other liabilities due to banks, other financial institutions and central bank	1,471,665	274,197	105,512	26,043	1,877,417	30,331	-	-	3,114,008	5,021,756
Deposits and other liabilities due to customors	226,094,811	12,792,858	8,701,959	2,892,981	250,482,609	187,138	-	-	84,647,407	335,317,154
Other liabilities	1,787,432	87,964	99,406	32,018	2,006,820	882,332	-	-	10,203,056	13,092,208
Total	229,353,908	13,155,019	8,906,877	2,951,042	254,366,846	1,099,801	-	-	97,964,471	353,431,118
Net Currency Position, December 31, 2019	(115,887,644)	433,090	(56,435)	79,697	(115,431,292)	116,905,290	-	60,074	60,220,278	61,754,350

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.2. Foreign exchange risk (continued)

A review of the ten-day VaR

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

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

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

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

In thousands of RSD

	As at December 31,	Average	Maximum	Minimal
2020				
Foreign currency risk	926	2,841	61,825	82
2019				
Foreign currency risk	7,247	7,674	27,366	365

4.4. 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.

4. RISK MANAGEMENT (continued)

4.4. Operational risk (continued)

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, and self-evaluation. Key risk indicators are an early warning to signal changes in the Bank's risk profile. They relate to a specific operational risk and show greater exposure in the occurrence of operational risk events. Their purpose is to help reduce losses and operational risks through proactive consideration of risk factors.

Self-assessment involves assessing risk exposure by organizational units in accordance with the map of identified operational risks by measuring the possible range, the importance to the business, and the frequency of events that can cause losses, by identifying the level of control that areas of business have against these risks and improvement measures.

In addition to the self-assessment 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.

4. RISK MANAGEMENT (continued)

4.5. 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.

4.6. 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.

4. RISK MANAGEMENT (continued)

4.7. 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.

4. RISK MANAGEMENT (continued)

4.8. Fair value of financial assets and liabilities

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

In thousands RSD

	31.12.2020					31.12.2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets										
Cash and cash funds held with the central bank	80,045,107	80,045,107	80,045,107	-	-	67,558,219	67,558,219	67,558,219	-	-
Loans and receivables due from other banks and other financial institutions	18,142,070	18,142,070	18,142,070	-	-	24,733,958	24,733,958	24,733,958	-	-
Loans and receivables due from customers	189,296,089	187,604,124	-	-	187,604,124	180,852,563	179,731,191	-	-	179,731,191
Other asset	6,216,270	6,218,414	6,218,414	-	-	7,100,360	7,100,360	7,100,360	-	-
Securities at amortized cost	842,240	842,240	-	-	842,240	-	-	-	-	-
Liabilities										
Deposits and other liabilities due to banks, other financial institutions and central bank	4,989,315	4,989,315	4,855,845	-	133,470	5,021,756	5,021,756	3,562,480	-	1,459,276
Deposits and other liabilities due to customers	372,699,401	372,432,163	-	-	372,432,163	335,317,154	335,262,611	-	-	335,262,611
Other liabilities	3,329,046	3,329,046	-	-	3,329,046	13,092,208	13,092,208	-	-	13,092,208

Fair value of investment property as at December 31, 2020 as determined by fair value appraisals made by certified appraisers, amounts to RSD 2,900,909 thousand (fair value as at December 31, 2019: RSD 2,742,723 thousand).

The calculated fair value of loans and advances to customers, as well as deposits received is equal to the fair value estimated by NLB d.d. Ljubljana and at which they are recognized on the date of acquisition of the majority stake in the Bank. On the date of acquisition, the impairment of most of the financial assets that have the status of risk-free exposures was also recognized.

4. RISK MANAGEMENT (continued)

4.8. Fair value of financial assets and liabilities

4.8.2. Financial instruments measured at fair value

	31.12.2020				31.12.2019			
Financial assets	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit and loss in RSD	508,922	4,873,616	-	5,382,538	512,632	4,877,762	-	5,390,394
Financial assets at fair value through profit and loss in foreign currency	-	2,925,568	-	2,925,568	174,460	4,724,165	-	4,898,625
Financial assets at fair value through other comprehensive income in RSD	-	81,955,812	-	81,955,812	-	59,651,701	-	59,651,701
Financial assets at fair value through other comprehensive income in foreign currency	18,095,705	44,468,703	105,757	62,670,165	11,997,444	56,357,770	173,617	68,528,831
Total	18,604,627	134,223,699	105,757	152,934,083	12,684,536	125,611,398	173,617	138,469,551

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

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

4. RISK MANAGEMENT (continued)

4.9. 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.

4. RISK MANAGEMENT (continued)

4.9. Capital management (continued)

Capital adequacy ratios	December 31, 2020	*In thousands of RSD* December 31, 2019
Tier 1 capital	68,767,512	65,426,275
Common Equity Tier 1 capital	68,394,002	65,052,765
Additional Tier 1 capital	373,510	373,510
Deductible items of capital	(547,809)	(1,779,291)
Capital	68,219,703	63,646,984
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	172,470,230	169,432,937
Risk exposure amount for operational risk	34,167,575	32,768,254
Risk exposure amount for market isks	3,268,120	4,238,173
Capital adequacy ratio (min. 19.07%)	32.50%	30.83%
Tier 1 capital adequacy ratio (min. 15.87%)	32.50%	30.83%
Common Equity Tier 1 capital adequacy ratio (min. 13.46%)	32.32%	30.65%

During 2020, 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 2020, 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.

4. RISK MANAGEMENT (continued)

4.9. Capital management (continued)

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.

5. USE OF ASSESSMENT

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

Key sources of estimation uncertainty

Provisions for credit losses

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

The impairment of placements aims ensure 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 contingent liabilities.

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

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

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

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

5. USE OF ASSESSMENT (continued)

Individual assessment

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

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

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

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

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

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

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.
When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the 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%.

5. USE OF ASSESSMENT (continued)

Group assessment

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

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

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

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

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

Determining the probable loss on off-balance sheet items

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

5. USE OF ASSESSMENT (continued)

Determination of fair value

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

The Bank performs valuation of financial instruments by:

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

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

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

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

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

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

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

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

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

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

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

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

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

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

The concept of fair value

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

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

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

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

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

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

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

Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments , based on Politics and Strategy risk management .

6. SEGMENT REPORTING

The Bank has three operating segments – profit centers, which are the Bank's strategic divisions and their business is object of segment reporting.

The following summary describes the operations in each of the Bank's reporting segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers but not with banks
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers, micro businesses, entrepreneurs and agriculture clients
Investment banking and interbank operations	Include securities and other financial instruments, as well as transactions with banks

The pandemic of the COVID-19 virus had a significant impact on the Bank's operations in 2020, as well as the measures prescribed by the National Bank of Serbia and the Ministry of Finance. In addition, the Bank's result was affected by net expenses on provisions for litigations in the total amount of RSD 232,190 thousand (a significant part of the position other net expenses on retail transactions relate to net expenses on provisions on court liabilities, while in transactions with legal entities most of the position of other net income refers to net income from the cancellation of unused provisions for litigation).

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

Each business segment is granted with direct operating costs relating to this segment as well as with part of indirect operating expenses (distribution of these costs to segments is performed using the corresponding keys that are used for the allocation of costs of cost centers to profit centers).

Direct operating expenses at Bank level amounted to RSD 7,910,286 thousand and make up 69% of total operating costs. Direct operating costs are mostly comprised of expenses that are directly attributable to the business segments (salaries, rental costs, depreciation costs, marketing and other costs), and a minor part are comprised of expenses that are allocated to the segments based on management decisions.

The amount which refers to the segment of retail banking was RSD 5,835,276 thousand of direct costs (74% of total direct costs) as a result of large business network and number of employees in the retail sector.

In accordance with the aforementioned, in 2020, the Bank realized pre-tax profit in the amount of RSD 4,192,846 thousand.

6. SEGMENT REPORTING (continued)

Operating segments report for 2020 is provided below:

	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Revenues and expenses					
Interest income	6,904,573	2,151,235	4,145,459	-	13,201,267
Interest expenses	(772,562)	(170,956)	(172,685)	(15,774)	(1,131,977)
Net interest income	6,132,011	1,980,279	3,972,774	(15,774)	12,069,290
Net income/expenses from related party transactions	3,627,660	738,724	509,024	-	4,875,408
Profit before impairment allowance	9,759,671	2,719,003	4,481,798	(15,774)	16,944,698
Net gains/losses from impairment allowance	(186,045)	(903,135)	17,148	-	(1,072,032)
Profit before operating expenses	9,573,626	1,815,868	4,498,946	(15,774)	15,872,666
Direct operating expenses	(5,835,276)	(1,845,682)	(229,328)	-	(7,910,286)
Net foreign exchange gains/losses	-	-	4,404	-	4,404
Net other income and expenses	(1,143,863)	673,684	296,426	(15,774)	(173,753)
Profit before indirect operating expenses	2,594,487	643,870	4,570,448	(15,774)	7,793,031
Indirect operating expenses	(2,027,685)	(1,286,221)	(286,279)	-	(3,600,185)
Profit before tax	566,802	(642,351	4,284,169	(15,774)	4,192,846
Assets per segment					
Cash and cash funds held with the central bank	-	-	80,045,107	-	80,045,107
Loans and receivables due from banks and other financial institutions	-	-	18,142,070	-	18,142,070
Loans and receivables due from customers	109,884,102	79,411,987	-	-	189,296,089
Investment securities	-	-	153,776,323	-	153,776,323
Other	-	-	3,433,697	14,734,437	18,168,134
	109,884,102	79,411,987	255,397,197	14,734,437	459,427,723
Liabilities per segment					
Liabilities to banks	-	-	4,989,315	-	4,989,315
Obligations to clients	310,252,041	47,903,374	14,543,986	-	372,699,401
Other	-	-	-	7,652,144	7,652,144
	310,252,041	47,903,374	19,533,301	7,652,144	385,340,860

6. SEGMENT REPORTING (continued)

Operating segments report for 2019 is provided below: :

	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Revenues and expenses					
Interest income	6,980,294	2,189,786	4,460,594	-	13,630,674
Interest expenses	(705,481)	(211,120)	(89,155)	(19,534)	(1,025,290)
Net interest income	6,274,813	1,978,666	4,371,439	(19,534)	12,605,384
Net income/expenses from related party transactions	3,912,956	812,561	603,479	-	5,328,996
Profit before impairment allowance	10,187,769	2,791,227	4,974,918	(19,534)	17,934,380
Net gains/losses from impairment allowance	(479,074)	2,029,564	875,441	-	2,425,931
Profit before operating expenses	9,708,695	4,820,791	5,850,359	(19,534)	20,360,311
Direct operating expenses	(5,818,576)	(1,734,099)	(206,586)	-	(7,759,261)
Net foreign exchange gains/losses	-	-	38,228	-	38,228
Net other income and expenses	(1,101,590)	(136,425)	172,770	-	(1,065,245)
Profit before indirect operating expenses	2,788,530	2,950,268	5,854,770	(19,534)	11,574,034
Indirect operating expenses	(1,868,570)	(1,158,962)	(277,817)	-	(3,305,349)
Profit before tax	919,960	1,791,306	5,576,953	(19,534)	8,268,685
Assets per segment				-	
Cash and cash funds held with the central bank	-	-	67,558,219	-	67,558,219
Loans and receivables due from banks and other financial institutions	-	-	24,733,958	-	24,733,958
Loans and receivables due from customers	98,957,179	81,895,384	-	-	180,852,563
Investment securities	-	-	138,469,551	-	138,469,551
Other	-	-	3,433,697	17,332,456	20,766,152
	98,957,179	81,895,384	234,195,425	17,332,456	432,380,443
Liabilities per segment					
Liabilities to banks	-	-	5,021,756	-	5,021,756
Obligations to clients	281,378,192	47,948,279	5,990,683	-	335,317,154
Other	-	-	-	16,189,360	16,189,360
	281,378,192	47,948,279	11,012,439	16,189,360	356,528,270

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

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that the carrying amount is approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and all variable interest rate financial instruments.

(ii) Fixed rate financial instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The assessed fair values of assets and liabilities with fixed interest rates mostly correspond to the carrying values thereof given that the interest rates applied do not depart from market interest rates. There are no materially significant departures in this respect.

8. NET INTEREST INCOME / (EXPENSES)

Net interest income / expenses include:

	In thousands of RSD	
	Year ended December 31,	
Income from:	2020	2019
Loans and receivables due from banks (REPO)	69,140	163,551
Loans and receivables due from customers	9,055,660	9,169,584
The National Bank of Serbia (liquid assets deposited and mandatory reserves	100,519	265,487
Investment securities	3,975,800	4,031,553
Leasing contracts - derecognition	148	499
Total interest income	13,201,267	13,630,674
Exrenses from:		
Deposits and liabilities due to banks and other financial institutions	(71,389)	(72,512)
Deposits and liabilities due to customers	(1,040,911)	(920,133)
Borrowings received	(3,903)	(13,112)
Leasing liabilities	(15,774)	(19,533)
Total interest expenses	(1,131,977)	(1,025,290)
Net interest income	12,069,290	12,605,384

Total interest income and expenses calculated using the effective interest rate method presented in the table above relate to financial assets and liabilities other than those at fair value through profit or loss.

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

Net fee and commission income includes:

	In thousands ofRSD	
	Year ended December 31,	
	2020	2019
Fees and commission income in domestic currency		
Payment transfer operations	3,317,831	3,421,718
Fees on issued loans and guarantees	122,556	108,163
Fees on purchase and sale of foreign currencies	551,327	587,035
Brokerage and custody fees	26,975	35,486
Fees arising from card operations	1,878,548	1,974,586
Credit Bureau processing fees	50,929	79,848
Other banking services	475,227	577,143
	6,423,393	6,783,979
Fees and commission income in foreign currencies		
Payment transfer operations	95,977	106,371
Fees on issued loans and guarantees - corporate customers	1,920	4,939
Brokerage and custody fees	34,328	23,145
Fees arising from card operations	141,233	206,369
Other banking services	64	26
	273,522	340,850
Fee and commision income	6,696,915	7,124,829
Fee and commission expenses in domestic currency		
Payment transfer operations	(167,749)	(150,202)
Fees arising on purchase and sale of foreign currencies	(31,696)	(18,431)
Fees arising from card operations	(437,974)	(557,489)
Credit Bureau processing fees	(47,894)	(72,110)
Other banking services	(220,535)	(158,347)
	(905,848)	(956,579)
Fee and commission expenses in foreign currencies		
Payment transfer operations	(115,161)	(117,113)
Fees arising from card operations	(748,643)	(667,125)
Other banking services	(51,855)	(55,016)
	(915,659)	(839,254)
Fee and commision expenses	(1,821,507)	(1,795,833)
Net fee and commission income	4,875,408	5,328,996

10. NET GAINS / (LOSSES) FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains on the financial assets held for trading include:

	In thousands of RSD Year ended December 31, 2020	2019
Gains on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	90,707	84,157
Gains on the fair value adjustment of securities – investment units	4,922	8,632
	95,629	92,789
Losses on the sales of securities and other financial assets held for trading – SWAP	-	(4,070)
Losses on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	-	(17,105)
Net gain / loss	95,629	71,614

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

Net gain/loss on the grounds of termination of recognition consists of:

	In thousands of RSD Year ended December 31, 2020	2019
Gains arising from derecognition of financial instruments at fair value through Other Comprehensive Income	70,778	238,373
Gains arising from derecognition of securities at fair value through Profit and loss	122,007	117,563
Gains arising from derecognition of derivatives at fair value through Profit and loss – FORWARD	4,537	3,789
Losses arising from derecognition of financial instruments valued at fair value through Other Comprehensive Income	-	(69)
Losses from derecognition of derivatives valued at fair value trough Profit and loss - FORWARD	(202)	-
Gains arising from derecognition of financial instruments at fair value through Other Comprehensive Income	(39,324)	(6,166)
Net gain / loss	157,796	353,490

Gains arising from derecognition of finanical assets valued at fair value through Other Comprehensive Income in the amount of RSD 70,778 thousand relates to bonds of the Republic of Serbia, out of which amount of RSD 10,004 thousand relates to bond denominated in dinars and RSD 60,734 thousand to bonds denominated in foreign currency.

Gains arising from derecognition of securities and other investments at fair value through income statement in the amount of RSD 122,007 thousand relates to: bonds of the Republic of Serbia in dinars in the amount of RSD 59,342 thousand, the bonds of the Republic of Serbia in foreign currency amounting to RSD 51,086 thousand and investment units in total of RSD 2,560 thousand and corporate bonds of public companies in the amount of RSD 9,019 thousand.

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

Gains arising from derecognition of derivatives at fair value through Profit and loss (forwards) in the amount RSD 4,335 thousand relates to revenues from FX transactions with commercial banks.

Losses arising from derecognition of securities and other investments at fair value through Profit and loss amounting to RSD 39,324 thousand relatess to: bonds of the Republic of Serbia in dinars amounting to RSD 35,394 thousand and the bonds of the Republic of Serbia in a foreign currency of RSD 3,930 thousand.

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

	In thousands of RSD	
	Year ended December 31,	
	2020	2019
Positive currency clause effects	150,499	562,986
Positive currency clause effects – value adjustment of securities	191	808
Foreign exchange gains – value adjustment of liabilities	220	2,587
Positive currency clause effects – leasing contracts	986	8,970
Foreign exchange gains	1,387,685	1,005,190
	1,539,581	1,580,541
Negative currency clause effects	(163,508)	(1,086,510)
Negative currency clause effects – value adjustment of securities	(211)	(2,035)
Negative currency clause effects – value adjustment of liabilities	(203)	(1,580)
Negative currency clause effects – leasing contracts	(895)	(3,528)
Foreign exchange losses	(1,370,360)	(448,660)
	(1,535,177)	(1,542,313)
Net gain / (loss)	4,404	38,228

13. NET GAINS / (LOSSES) FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net gain / (loss) from impairment of financial assets relates to:

	In thousands of RSD	
	Year ended December 31,	
	2020	2019
Impairment allowance of financial assets measured at amortised cost	(4,461,954)	(5,867,890)
Provisions for off-balance sheet items	(235,337)	(244,521)
Impairment allowance for debt securities measured through other comprehensive income	(72,707)	(85,685)
Losses airising from the modification of financial instruments	(342,435)	(14,631)
Impairment allowance of direct write-off of placements	(174)	-
Reversal of impairment allowance of financial assets valued at amortised cost	3,401,198	7,168,031
Reversal of provisions for off-balance sheet items	201,851	328,498
Income from collection of receivables previously written-off	396,134	1,086,560
Reversal of allowance for debt securities measured through other comprehensive income	41,295	55,569
Revenues arising from modification of financial instruments	97	-
Total	(1,072,032)	2,425,931

The Bank recorded impairment of foreclosed assets in the amount of RSD 77,436 thousand (note 31) at the position Expense of indirect write-offs, based on the fair value appraisals of property and equipment by certified appraisers, in accordance with the internal Act of the Bank.

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

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

By the date of issue of these financial statements the Bank did not make materially significant collections from imapaired placements that would affect the reversal of impairment.

Effects arising from the credit risks of debt securities in the amount of net loss of RSD 34,412 thousand the Bank recognised in Equity, in the position losses of the debt instruments (Expenses of debt securities at fair value through Other Comprehensive Income in the amount of RSD 72,707 thousand and income on the same basis in amount of RSD 41,295 thousand). These positions are exempt from the structure of the table of changes in the impairment and provisions for off-balance sheet items.

13. NET GAINS / (LOSSES) FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

MOVEMENT ON IMPAIRMENT ACCOUNTS AND PROVISIONS FOR OFF-BALANCE

	Loans and receivables due from banks (Note 23.2)	Loans and receivables due from customers (Note 24.2)	Investment securities. (Note**a** 22)	Investments in Subsidiaries (Note 25)	Other assets (Note 30)	Off-balance sheet liabilities (Note 33)	Total
Balance as at January 1, 2020	218,351	12,020,333	602	2,047,191	2,158,301	190,977	16,635,755
New impairment allowance	42,256	4,193,359	7,866	-	218,473	235,337	4,697,291
Decrease in impairment allowance	(41,992)	(3,212,476)	(4,255)	-	(142,475)	(201,851)	(3,603,049)
Foreign exchange effects	(18,956)	(24,874)	-	-	(1,493)	-	(45,323)
Permanent Write-offs	-	(1,880,287)	-	-	(6,812)	-	(1,887,099)
Reclassification of sectoral structure	(195,504)	195,504	-	-	-	-	-
Other changes	13	102,559**	-	-	(374)	-	102,198
Balance as at December 31, 2020	4,168	11,394,118	4,213	2,047,191	2,225,620	224,463	15,899,773

*** effect of recognition of interest income on impaired loans using an alternative concept IRC method that relates to the netting of interest income and expense of value adjustments*

In 2020, the Bank increased net expenses from impairment of placements at amortized cost, off-balance provisions in total amount of RSD 1,094,242 thousand.

Among other changes on the impairment accounts and provisions the amount of RSD 1,887,099 thousand relates to permanent write-off that the Bank carried out in 2020, i.e. transfer from on-balance to off-balance records on the basis of the decisions of the NBS of the accounting write-off.

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

In thousands of RSD

	Year ended December 31, 2020	2019
Net gains/losses from derecognition of the financial instruments measured at amortised cost	-	(579,933)
Net gain / loss	-	(579,933)

In 2020, the Bank had no effects on this income statement position.
The loss realized in 2019 relates entirely to the net effects of the implementation of the Law of conversion of mortgage loans indexed in Swiss francs in April 2019, by which banks were obliged to recognize the expense of conversion and the impairment of the outstanding debt in the income statement of the current period.
According to the Law, the amount obtained by the conversion of outstanding debt from Swiss francs to debt indexed to EUR using a conversion exchange rate for all clients that signed a contract with the Bank, is impaired by 38% where 23% of that impairment is borne by the Bank's income statement of the current period, and for the 15% of impairment there is a formed claim from The Republic of Serbia. The negative net effect shown in the income statement of the Bank is related to the recalculation of 23% impairment of net receivables on the basis of derecognition of loans in Swiss francs.The new, decresed amount of loan receivables in EUR, with the new repayment plans, are recorded by the Bank under the position Loans and receivables due from customers.

15. OTHER OPERATING INCOME

	In thousands of RSD	
	Year ended December 31,	
	2020	2019
Other income from operations	199,291	137,310
Revenues from dividends and shares	12,098	14,011
Net income	211,389	151,321

In the other operating income from operations in the amount of RSD 199,291 thousand, the most significant amounts relate to revenue from lease of properties, including advances received for rental in the amount of RSD 131,691 thousand and refunds of court costs and utility costs in the amount of RSD 50,799 thousands, revenues from charged costs for the use of business mobile phones upon employee authorization and the cost of using business vehicles for private purposes in the amount of RSD 13,713 thousand.

During 2020, the Bank received dividends from shares and securities held for trading in amount of RSD 12,098 thousand (2019: RSD 14,011 thousand), which form part of the position of Other income, and dividends from shares in the VISA Inc. in the amount of RSD 7,019 thousand, Dunav Osiguranje ADO of RSD 3,077 thousand and MasterCard of RSD 2,002 thousand.

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Costs of salaries, salary compensation and other personal expenses consist of:

	In thousands of RSD	
	Year ended December 31,	
	2020	2019
Net salaries	2,694,582	2,596,042
Net benefits	430,756	484,417
Payroll taxes	383,023	379,934
Payroll contributions	832,187	824,871
Considerations paid to seasonal and temporary staff	761	3,283
Provisions for retirement benefits – net (Note 33)	79,181	31,113
Other personal expenses	1,399,456	597,872
Total	5,819,946	4,917,532

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

17. DEPRECIATION COSTS

	In thousands of RSD	
	Year ended December 31,	
	2020	2019
Amortization costs – intangible assets (Note 26.2)	221,070	204,577
Depreciation costs – property and equipment (Note 27.2)	340,139	369,410
Depreciation costs – investment property (Note 28.1)	38,420	38,420
Depreciation costs – right of use assets (Note 27.2)	377,754	393,430
Total	977,383	1,005,837

18. OTHER INCOME

Other income consists of:

	In thousands of RSD Year ended December 31, 2020	2019
Income from reversal of unused provisions for litigations and other liabilities	775,329	512,334
Income from decrease of liabilities	2,874	5,391
Other income	81,214	203,070
Total	859,417	720,795

Within the position of Other income in 2020, the most significant items are revenues:

- On the basis of litigation finished in favour of the Bank or disputes temporarily ceased until finalization of related case in the amount of RSD 775,329 thousand
- On the grounds of reducing liabilities in the amount of RSD 2,874 thousand
- Interest payments from previous years – from retail clients in total of RSD 1,710 thousand and from entrepreneurs in the amount of RSD 219 thousand
- Interest payments from previous years – from corpotate clients in total of RSD 48,545 thousand.

19. OTHER EXPENSES

Other expenses include:

	In thousands of RSD Year ended December 31, 2020	2019
Cost of materials	312,082	302,604
Cost of production services	1,236,532	1,366,843
Non-material costs (without taxes and contributions)	2,371,230	2,601,773
Tax costs	157,695	164,512
Contributions costs	696,277	710,856
Other operating costs	18,507	25,765
Other expenses	403,006	422,499
Losses from sales of fixed assets and intangible investments	-	709
Losses arising from write-off of fixed assets and Intangible assets	687	6,650
Expenses arising from changes in value of investment property and assets held for sale	7,591	69,100
Expenses arising from provisions for litigations (Note 33)	1,007,519	1,252,461
Total	6,211,126	6,923,772

a) Other expenses

Within the position of other expenditures in the amount of RSD 403,006 thousand, among others the following are recordedexpenditures arising from paid invoices of insurance companies for life insurance policies of clients in favour of the Bank in the amount of RSD 233,551 thousand, and whose payment was covered by the Bank. The specified policies are used as collateral for loans granted to individuals. Additionally, this position also includes expenditures related to insurance policies for users of current account sets and travel insurance international payment cards in the amount of RSD 15,227 thousand.

19. OTHER EXPENSES (continued)

b) Provision for litigations

Expenditures on the basis of provisions for litigation totalling to RSD 1,007,519 thousand (note 33) are result of increased expenditures for 12,745 new cases during the year 2020, and increase provisions for active cases from previous years.

20. INCOME TAX – current tax and deferred tax

20.1 Components of income taxes as of December 31 were as follows:

In thousands of RSD

	Year ended December 31, 2020	2019
Gains from deferred taxes	120,049	1,482,667
Losses from deferred taxes	(1,384,134)	(795,593)
Total	(1,264,085)	687,074

During 2020, the Bank paid in advance income tax, considering that during the calculation of income tax for 2019 stated the taxable profit of RSD 132,828 thousand and in the tax return stated the monthly amount of the advance payment for 2020 in the amount of RSD 1,112 thousand. Receivables for prepaid income tax as at December 31, 2020 in the amount of RSD 12,237 thousand are presented under line Current tax assets. Having in mind that the Bank has no obligation to pay taxes for 2020, it will not request a refund of the prepaid funds, but will use them as an overpayment for the following years or will use them to cover other tax liabilities.

20.2 Reconciliation of the effective tax rate is presented in the table below:

In thousands of RSD

	2020	2020	2019	2019
Profit for the year before taxes		4,192,846		8,268,685
Tax calculated using the local income tax rate	15%	628,927	15%	1,240,303
Expenses not recognized for tax purposes	3.64%	152,443	2.61%	216,264
Tax effects of the net capital losses /gains	-0.01%	(384)	-0.01%	(386)
Tax effects of income reconciliation	-2.77%	(116,098)	-0.91%	(75,645)
Tax effects on IFRS 9	-0.83%	(34,851)	-0.42%	(34,851)
Tax credit received and used in the current year	-1.14%	(47,600)	-9.02%	(746,013)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-13,89%	(582,437)	-6.77%	(599,672)
Tax effect adjustments (used and new ones)	30,15%	1,264,085	-8.31%	(687,074)
Tax effects stated within the income statement		(1,264,085)		687,074

20. INCOME TAX – current tax and deferred tax (continued)

20.3 Movements in deferred taxes as at December 31 are presented as follows:

	In thousands of RSD Year ended December 31, 2020	2019
Balance as of January 1	1,074,197	840,967
Occurrence and reversal of temporary differences	(1,221,597)	233,230
Balance as of December 31	(147,400)	1,074,197

20.4. Deferred tax assets and liabilities

20.4.1. Deferred tax assets and liabilities refer to:

In thousands of RSD

	2020			2019		
	Asset	Liability	Net	Asset	Liability	Net
Difference in the present value of fixed assets for tax and financial reporting purposes	36,037	-	36,037	39,299	-	39,299
Tax losses carried forward	-	-	-	1,259,350	-	1,259,350
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	1,779	(968,884)	(967,105)	570	(1,008,254)	(1,007,684)
Long-term provisions forretirement benefits	58,265	-	58,265	53,838	-	53,838
Impairment of assets	342,947	-	342,947	324,857	-	324,857
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period	762	-	762	1,213	-	1,213
Accrued and unpaid public duties	112	-	112	163	-	163
First implementation of IFRS 9	69,702	-	69,702	104,552	-	104,552
Conversion based tax loan	76,119	-	76,119	76,119	-	76,119
Provisions for litigations	256,095	-	256,095	242,231	-	242,231
Actuarial gains on provisions for employee benefits	-	(20,334)	(20,334)	-	(19,741)	(19,741)
	841,818	(989,218)	(147,400)	2,102,192	(1,027,995)	1,074,197

Tax losses carried forward that are not recorded in the books of the Bank and on basis of which deferred tax assets were not formed, but can be used to cover taxes on profits in the upcoming periods amount to RSD 8,685,280 thousand which relate to a part of the tax loss realized in 2016. The tax credit expires at the end of 2021.

Deferred tax assets were not formed for tax credits on the basis of fixed asset investments in the amount of RSD 11,766 thousand, which can be used until the end of 2023, while tax credit for intercompany dividends of RSD 13,154 thousand is entirely utilized in 2019.

20. INCOME TAX – current tax and deferred tax (continued)

20.4.2. Overview of tax credits for which deferred tax assets were not recognized:

In thousands of RSD

Type of tax credit	Year	Amount as at 31 December 2020	Amount as at 31 December 2019	Expiration date for use
	2014			2019
	2015			2020
Tax losses carried forward	2016	8,685,280	595,917	2021
Total tax losses		8,685,280	595,917	
Impact of tax losses on future income tax (15%)		1,302,792	89,388	From 2019 - 2021
Tax credit on the basis of investment in fixed assets	2013	11,766	12,508	2023
Tax credit on the basis of intercompany dividends		1,314,558	101,896	2019

In addition to the reversal of deferred tax assets on transferred tax loss based on coverage of taxable profit for 2020 in the amount of RSD 47,600 thousand, additional cancellation of the remaining amount of deferred tax assets on tax losses carried forward in the amount of RSD 1,213,404 thousand was performed, based on planned profit for 2021 (in which the right to use tax losses expires). As stated, as at December 31, 2020 the amount of the tax credit for which no deferred tax assets have been formed is higher than on December 31, 2019.

20.4.3. Movements in temporary differences during 2020 and 2019 are shown as follows:

In thousands of RSD

2020	As at January 1,	Through P&L	Through OCI	As at December, 31
Property, plant and equipment	39,299	(5,764)	2,502	36,037
Tax losses carried forward	1,259,350	(1,259,350)	-	-
Securities	(1,007,684)	-	40,579	(967,105)
Long term provisions for employee benefits	53,838	4,427	-	58,265
Actarial gains	(19,741)	-	(593)	(20,334)
Impairment of assets	324,857	18,090	-	342,947
Assets based on the payment of other employee liabilities	1,213	(451)	-	762
Accrued and unpaid public duties	163	(51)	-	112
Tax credit based on first implementation of IFRS 9	104,552	(34,850)	-	69,702
Tax credit based on conversion of CHF loans	76,119	-	-	76,119
Provisions for legal disputes	242,231	13,864	-	256,095
Total	1,074,197	(1,264,085)	42,488	(147,400)

20. INCOME TAX – current tax and deferred tax (continued)

20.4.3. Movements in temporary differences during 2020 and 2019 are shown as follows (continued):

In thousands of RSD

2019	As at January, 1	Through P&L	Through OCI	As at December 31,
Property, plant and equipment	69,359	(16,707)	(13,353)	39,299
Tax losses carried forward	878,000	381,350	-	1,259,350
Securities	(565,302)	-	(442,382)	(1,007,684)
Long term provisions for employee benefits	49,098	4,740	-	53,838
Actarial gains	(21,632)	-	1,891	(19,741)
Impairment of assets	295,225	29,632	-	324,857
Assets based on the payment of other employee liabilities	1,183	30	-	1,213
Accrued and unpaid public duties	13	150	-	163
Tax credit based on first implementation of IFRS 9	-	104,552	-	104,552
Tax credit based on conversion of CHF loans	-	76,119	-	76,119
Provisions for legal disputes	135,023	107,208		242,231
Total	840,967	687,074	(453,844)	1,074,197

20.5 Tax effects relating to Other comprehensive income

In thousands of RSD

	2020			2019		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair adjustments of equity investments and securities available for sale	(262,464)	39,369	(223,095)	2,920,446	(438,067)	2,482,379
Net decrease due to actual losses	3,954	(593)	3,361	(12.609)	1,891	(10,718)
Valuation of property	7,894	2,502	10,396	111,214	(13,353)	97,861
Decrease due to fair value adjustments of equity investments and securities available for sale (decrease in equity and securities)	(8,064)	1,210	(6,854)	28,767	(4,315)	24,452
Total	(258,680)	42,488	(216,192)	3,047,818	(453,844)	2,593,974

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK

Cash and assets held with the central bank include:

	In thousands of RSD	
	December 31, 2020	December 31, 2019
In RSD		
Cash on hand	4,549,226	4,328,913
Gyro account	24,851,040	23,873,701
Surplus of liquidity assets deposited	7,500,000	-
Other RSD cash funds	99	99
	36,900,365	28,202,713
In foreign currency		
Cash on hand	10,206,878	9,092,077
Obligatory reserve held with the NBS	31,633,723	30,261,966
Other cash funds	1,304,141	1,463
	43,144,742	39,355,506
Total	80,045,107	67,558,219
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 23.1)	10,725,914	3,570,398
Foreign currency obligatory reserves	(31,633,723)	(30,261,966)
Surplus of liquidity assets deposited	(7,500,000)	-
	(28,407,809)	(26,691,568)
Cash and cash equivalents reported in statement of cash flows	51,637,298	40,866,651

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts of foreign banks, funds in the account of the Central Securities Depository and cash at the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0.0% to 5.00%, depending on the maturity of liabilities and their source, while the calculated RSD obligatory reserve makes the sum: calculated obligatory reserves in RSD, 38.00% of the RSD countervalue of the calculated obligatory reserve in EUR on deposits up to 730 days, and 30.00% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days.

The National Bank of Serbia pays interest to the Bank on the allocated funds in RSD in the amount of 0.10% annually from June 18, 2020.

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK (continued)

The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

Persuant to the Decision on Amendment of the Decision on Obligatory Reserve dated December 11, 2015 (Official Gazzete 102/2015), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied
- for foreign currency deposits placed for over 730 days the rate of 13% was applied
- for RSD deposits indexed with currency clause the rate of 100% was applied regardless of maturity

In accordance with Decision on Obligatory Reserves Held with NBS, the Bank allocated a part of its foreign currency reserve to its gyro account. The Bank does not realize interest on the obligatory reserve in the currency of the foreign country.

Other foreign currency cash in the amount of RSD 1,304,141 thousand (2019: RSD 1,463 thousand) relate to an accruals account at the Central Registry of securities for security trading.

22. SECURITIES

22.1. Securities consist of:

In thousands of RSD

	December 31, 2020	December 31, 2019
Securities measured at fair value through profit and loss (in RSD)	5,382,538	5,390,394
Securities measured at fair value through profit and loss in foreign currency	2,925,568	4,898,625
Total I	8,308,106	10,289,019
Securities measured at fair value through other comprehensive income (in RSD)	82,062,022	59,825,920
Securities measured at fair value through other comprehensive income in foreign currency	62,564,408	68,355,214
Impairment allowance	(453)	(602)
Total II	144,625,977	128,180,532
Securities measured at amortized cost – corporate bonds (in RSD)	846,000	-
Impairment allowance	(3,760)	-
Total III	842,240	-
Total I+II+III	153,776,323	138,469,551

22. SECURITIES (continued)

22.2. The structure of securities measured at fair value through profit and loss is provided below:

	In thousands of RSD December 31, 2020	December 31, 2019
Republic of Serbia bonds (in RSD)	4,873,616	4,877,762
Investment units of OIF monetary fund (in RSD)	508,922	512,632
Republic of Serbia bonds (in foreign currency)	2,925,568	4,898,625
Total	8,308,106	10,289,019

Investment units as at December 31, 2020 in the total amount of RSD 508,922 thousand refer to investment units KomBank Monetary Fund, Belgrade.

22.3. The structure of the securities that are measured at fair value through other comprehensive income:

	In thousands of RSD December 31, 2020	December 31, 2019
In RSD		
Republic of Serbia bonds	80,958,748	59,651,702
T-bills Government of Republic of Serbia	997,064	-
Bonds of local government (city of Sabac and municipality of Stara Pazova)	106,210	174,218
Total in RSD	82,062,022	59,825,920
In foreign currency		
Republic of Serbia bonds	59,359,112	65,908,342
Bonds of foreign banks (Raiffeisen Bank International)	1,739,077	1,799,460
Bonds of foreign States (Republika Srpska)	1,466,219	647,412
Total in foreign currency	62,564,408	68,355,214
Total	144,626,430	128,181,134

22. SECURITIES (continued)

Changes in impairment is presented as follows:

Impairment of securities at fair value through OCI

In thousands of RSD

	December 31, 2020	December 31, 2019
Individual impairment allowance		
Balance as at January 1	602	1,594
Increase (Note 13)	4,106	74
Effects of the changes in exchange rates (Note 13)	-	(7)
Reversal (Note 13)	(4,255)	(1,059)
Total individual impairment allowance	453	602

Impairment of securities measured at amortized cost

In thousands of RSD

	December 31, 2020	December 31, 2019
Individual impairment allowance		
Balance as at January 1	-	-
Increase (Note 13)	3,760	-
Total individual impairment allowance	3,760	-
Total individual impairment	4,213	-

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

23.1 Loans and receivables due from banks include:

In thousands of RSD

	December 31, 2020	December 31, 2019
RSD loans and receivables		
REPO transactions	-	12,000,000
Loans for working capital	1,500	-
Overnight loans	-	200,000
Other receivables	4,085	3,148
Prepayments	970	6,805
Accruals	(2)	-
Impairment allowance	(12)	(273)
Total in RSD	6,541	12,209,680
FX loans and receivables		
REPO transactions	1,165,461	2,103,540
Foreign currency accounts held with foreign banks (Note 21)	10,725,914	3,570,398
Overnight loans	1,175,802	2,161,743
Other loans and receivables due from foreign banks	1,018,991	896,474
Foreign currency deposits placed with other banks	2,299,612	2,896,134
Prepayments	1,700	1,834
Other receivables	4,360	5,958
Loans to foreign banks (subsidiaries)	797,865	67,195
Secured foreign currency warranties	949,980	1,039,080
Impairment allowance	(4,156)	(218,078)
Total in foreign currency	18,135,529	12,524,278
TOTAL	18,142,070	24,733,958

As at 31 December 2020, the Bank did not have securities acquired in reverse repo transactions with the National Bank of Serbia. During the year, placements to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days with the annual interest rate of 0.2% to 1.01%.

Short-term time loans and deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 0.2 % to 1.08% per annum. Short term time deposits at banks in foreign currency are deposited for a period not exceeding one year, with interest rates ranging from 0.03% to 0.75% per annum for the EUR, from 0.05% to 1.6% for USD, from 0.01% to 0,72% for GBP, from 0.01% to 1.68% for CAD, and 0.03% to 0.65% for AUD.
Reverse repo with domestic banks was placed at an interest rate of 0.20%.

Interest rates on long-term loans extended revolving foreign dependent banks ranged in scope from 2,335% to 4.52% which is a 6m EURIBOR plus a fixed share of 2.75%.
Interest rates on long-term loans to foreign subsidiaries ranged from 1.947% to 2.492%, which was 6M EURIBOR plus a fixed part of 2.47% and 2.65%, while interest rates on revolving loans to foreign subsidiaries ranged from 1.8% to 2.414% (representing 1M EURIBOR plus a fixed part of 2.35% and 2.86%).

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

23.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

In thousands of RSD

Impairment allowance	2020	2019
Balance as at January 1	218,351	228,037
Impairment allowance in current year		
Increase (Note 13)	42,256	40,853
Reclassification – transfer on clients	(195,504)	
Effects of the changes in exchange rates (Note 13)	(18,956)	3,105
Reversal (Note 13)	(41,992)	(53,644)
Other	13	-
Balance as at December 31	4,168	218,351

24. LOANS AND RECEIVABLES DUE FROM CLIENTS

24.1 Loans and receivables due from customers:

In thousands of RSD

	2020			2019		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers and agro						
Transaction account overdrafts	340,913	(24,140)	316,773	520,354	(13,158)	507,196
Working capital loans	42,389,327	(4,474,995)	37,914,332	41,530,893	(3,815,411)	37,715,482
Investment loans	41,686,558	(676,393)	41,010,165	40,409,450	(960,446)	39,449,004
Loans for payments of imported goods and services	2,928,241	(30,092)	2,898,149	2,062,163	(19,802)	2,042,361
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	306,114	(278,343)	27,771	362,298	(328,945)	33,353
Other loans and receivables	23,357,788	(4,859,265)	18,498,523	26,213,573	(5,749,113)	20,464,460
Prepayments	492,069	(29,138)	462,931	87,657	(1,260)	86,397
Accruals	(191,382)	-	(191,382)	(156,819)	-	(156,819)
	111,309,628	(10,372,366)	100,937,262	111,029,569	(10,888,135)	100,141,434
Retail customers – private individuals						
Transaction account overdrafts	2,674,284	(168,229)	2,506,055	3,159,725	(169,167)	2,990,558
Housing loans	46,434,157	(408,119)	46,026,038	41,752,415	(533,828)	41,218,587
Cash loans	37,233,498	(354,972)	36,878,526	35,107,841	(359,512)	34,748,329
Consumer loans	239,232	(781)	238,451	197,000	(1,070)	195,930
Other loans and receivables	1,741,027	(72,608)	1,668,419	1,847,862	(65,086)	1,782,776
Prepayments	1,475,339	(17,043)	1,458,296	268,705	(3,535)	265,170
Accruals	(416,958)	-	(416,958)	(490,221)	-	(490,221)
	89,380,579	(1,021,752)	88,358,827	81,843,327	(1,132,198)	80,711,129
Balance as of December 31	200,690,207	(11,394,118)	189, 296,089	192,872,896	(12,020,333)	180,852,563

24. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

24.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

In thousands of RSD

	December 31, 2020	December 31, 2019
Individual impairment allowance		
Balance at January 1	11,020,640	12,865,378
Increase (Note 13)	825,568	2,383,710
Reclassification from Group Impairment	450,519	(846,629)
Reclassification from Bank's impairment	195,504	-
Effects of the changes in foreign exchange rates (Note 13)	(1,261)	(12,394)
Released during the year (Note 13)	(1,019,998)	(2,243,131)
Reduction of impairment CHF-EUR Conversions under the Law on Conversion of Loans in CHF	-	(165,317)
Permanent write-off	(1,143,788)	(960,161)
Conversion of CHF-EUR write-off under the Law on Conversion of Loans in CHF	-	(816)
Other (Note 13)	51,984	-
Individual impairment allowance	10,379,168	11,020,640
Group impairment allowance		
Balance at January 1	999,693	1,283,929
Increase (Note 13))	3,367,791	3,081,495
Reclassification to Individual impairment allowance	(450,519)	846,629
Effects of the changes in foreign exchange rates (Note 13)	(23,613)	(10,420)
Reversal during the year (Note 13)	(2,192,478)	(3,942,169)
Reduction of impairment CHF-EUR Conversions under the Law on Conversion of Loans in CHF	-	(113,250)
Permanent write-off (Note 13)	(736,499)	(334,830)
Conversion of CHF-EUR write-off under the Law on Conversion of Loans in CHF	-	(917)
Other (Note 13)	50,575	189,226
Total Group impairment alowance	1,014,950	999,693
Balance as at December 31	11,394,118	12,020,333

Loans and receivables due from retail customers

During 2020, short-term and long-term loans to retail customers in RSD were approved for a period of 30 days to 120 months in RSD with nominal interest rates ranging from 2.00% to 13.95% per annum.

Short-term loans to retail customers in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.47% to 7.00% annually.

Long-term loans to retail customers in foreign currency are approved for the period from thirteen to ninety-five months with nominal interest rates ranging from 1.50% to 8.00% annually.

24. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Loans and receivables due from legal entities

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.90% to 6.95% annually. In foreign currency, short-term loans were granted for a period up to twelve months with an interest rate of EUR 1.20% to 5.95% annually. Long-term loans in RSD were approved for a period of thirteen months to one hunderd and twenty months at an interest rate of 1.48% to 5.95% annually. Long-term loans in foreign currency were granted for a period of hunderd and forty-four months at an interest rate of EUR 1.11% to 5.95% annually.

Risks and Uncertainties

The management of the Bank calculates provision for possible loan losses by applying the concept of expected credit losses. Losses due to the impairment of financial assets held at amortised cost are measured as the difference between the carrying value of the financial asset and the present value of the estimated future cash flows discounted with the initial interest rate of the asset. Losses are recognized in the income statement and are measured at the position of impairment and of financial assets. When events after the balance sheet date is affected by a reduction in the amount of loss due to impairment, such a reduction is recognized as revenue of the abolition of impairment, through the income statement.

Loans and other receivables are shown in the amount less the Bank and the individual calculation of impairment. Individual and group provisions are deducted from the book value of loans that are identified as impairment to their value reduced to their recoverable value. In order to protect against the risk of default in dealings with customers, the Bank is undertaking the following measures for the regulation of claims: extension, restructuring, alignment, retrieval of assets for the purpose of securing payment of claims, the conclusion of contracts with interested third party, launch litigation and other measures. If measures regulating investments, or foreclosure and court proceedings have not produced the expected results, or when there is no possibility of the collection in its entirety, initiates the proposal for a permanent write-off of the remaining claims of the banks, or transfer from on-balance to off-balance records.

25. INVESTMENTS INTO SUBSIDIARIES

In thousands of RSD

	December 31, 2020	December 31, 2019
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banka a.d., Podgorica	2,366,273	2,366,273
Impairment allowance	(2,047,191)	(2,047,191)
Total	3,433,697	3,433,697

Effects of appraisals of investments into subsidiaries

Permanent equity stakes in subsidiaries - banks were impaired in 2016 in the amount of RSD 2,869,029 thousand, in accordance with the requirements of IAS 36, based on an estimate of their fair value by an independent appraiser. Impairment was recognized as expense in Bank's P&L.

Investments in the permanent stakes of subsidiary banks have been subject to impairment testing at the end of 2017 and 2018, as IAS 36 requires a new estimate of fair value only where there is evidence that the value of the asset can be further reduced (or that the previously recognized impairment has been significantly reduced).

In 2019, when reviewing the performance of both subsidiaries, after the impairment that was made in 2016, significant changes with positive consequences were identified.

Based on the clear indications with positive effects on the operations of the subsidiary banks, as well as the expectation that such developments will continue in the near future, the Bank engaged an independent valuer in 2019 to determine the fair value of the subsidiaries' equity interest. Based on the results of the assessment, a part of previously recognized impairment of interest in subsidiaries was reversed in the total amount of RSD 821,838 thousand as at December 31, 2019.

As at December 31, 2020 the net value of the investement in subsidiaries amounts to RSD 3,433,697 thousand, and is unchanged compared to the balance stated as at December 31, 2019 given that on the basis of the performed review of the performance of subsidiaries in 2020, no noticeable and clear indications were identified that the value of these equity stakes was additionally significantly reduced or that the previously recognized impairment was significantly reduced.

26. INTANGIBLE ASSETS

26.1 Intangible assets comprise:

In thousands of RSD

	December 31, 2020	December 31, 2019
Intangible assets	495,533	638,758
Intangible assets in progress	15,136	26,977
Total	510,669	665,735

26.2 Movements on the account of intangible assets in 2020 and 2019 are presented below:

In thousands of RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as of January 1, 2019	2,267,806	172,778	2,440,584
Additions	-	313,261	313,261
Transfers	459,062	(459,062)	-
Disposals	(7,087)	-	(7,087)
Balance as of December 31, 2019	2,719,781	26,977	2,746,758
Balance as of January 1, 2020	2,719,781	26,977	2,746,758
Additions	-	66,004	66,004
Transfers	77,845	(77,845)	-
Disposals	-	-	-
Balance as of December 31, 2020	2,797,626	15,136	2,812,762
Impairment			
Balance as of January 1, 2019	1,883,533		1,883,533
Amortization (Note 17)	204,577	-	204,577
Disposals	(7,087)		(7,087)
Balance as of December 31, 2019	2,081,023	-	2,081,023
Balance as of January 1, 2020	2,081,023	-	2,081,023
Amortization (Note 17)	221,070	-	221,070
Disposals	-		-
Balance as of December 31, 2020	2,302,093	-	2,302,093
Net carrying value			
Balance as of December 31, 2019	638,758	26,977	665,735
Balance as of December 31, 2020	495,533	15,136	510,669

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Property, plant and equipment comprise:

In thousands of RSD

	December 31, 2020	December 31, 2019
Property	4,842,782	4,907,488
Equipment	382,842	526,522
Investments in progress	20,064	43,224
Right of use assets	799,642	960,703
Total	6,045,330	6,437,937

27.2 Movements on the account of property and equipment in 2020 and 2019 are presented below:

In thousands of RSD

	Property	Equipment	nvestemt s in progress	Leased business premises	Leased equipme nt	Total
Cost						
Balance as at January 1, 2019	6,950,731	3,496,241	199,625	-	-	10,646,597
Correction of opening balance as at January 1, 2019 – adoption of IFRS 16	-	-	-	1,330,695	18,760	1,349,455
Adjusted opening balance as at January 1, 2019	6,950,731	3,496,241	199,625	1,330,695	18,760	11,996,052
Additions and new lease contracts	-	-	149,631	63,187	6,010	216,211
Transfer from investments in progress	74,255	231,777	(306,032)	-	-	-
Write-off	(11,675)	(122,621)	-	-	-	(134,296)
Revaluation gain	244,948	-	-	-	-	244,948
Revalaution loss	(142,218)	-	-	-	-	(142,218)
Shortages	-	(541)	-	-	-	(541)
Modification of leasing contracts	-	-	-	(29,891)	-	(29,891)
Leasing - other	-	-	-	(49,121)	-	(49,121)
Balance as at December 31, 2019	7,116,041	3,604,856	43,224	1,314,870	24,770	12,103,761
Balance as at January 1, 2020	7,116,041	3,604,856	43,224	1,314,870	24,770	12,103,761
Additions and new lease contracts	-	-	109,024	229,243	1,186	339,453
Transfer from investments in progress	77,648	54,536	(132,184)	-	-	-
Write-off	(18,280)	(196,783)	-	-	-	(215,063)
Shortages	-	(1,116)	-	-	-	(1,116)
Modification of leasing contracts	-	-	-			
Leasing - other	-	(6)	-	(40,094)	(1,359)	(41,459)
Balance as at 31 December 2020	7,175,409	3,461,487	20,064	1,504,019	24,597	12,185,576
Impairment allowance						
Balance as at January 1, 2019	2,051,835	2,975,684	-	-	-	5,027,519
Depreciation (note 17)	144,592	224,818	-	383,941	9,489	762,840
Write-off	(10,598)	(121,640)		-	-	(132,238)
Revaluation gain	57,793	-	-	-	-	57,793
Revalaution loss	(35,069)	-	-	-	-	(35,069)
Shortages	-	(528)	-	-	-	(528)
Modification of leasing contracts	-	-	-	(2,893)	-	(2,893)
Leasing - other	-	-	-	(11,600)	-	(11,600)
Balance as at December 31, 2019	2,208,553	3,078,334	-	369,448	9,489	5,665,824
Balance as at January 1, 2020	2,208,553	3,078,334	-	369,448	9,489	5,665,824
Depreciation (note 17)	142,354	197,785	-	368,291	9,463	717,893
Write-off	(18,280)	(196,442)		-	-	(214,722)
Shortages	-	(1,026)	-	-	-	(1,026)
Modification of leasing contracts	-	-	-	-	-	-
Leasing - other	-	(6)	-	(26,358)	(1,359)	(27,723)
Balance as at December 31, 2020	2,332,627	3,078,645	-	711,381	17,593	6,140,246
Net carrying value						
Balance as at December 31, 2019	4,907,488	526,522	43,224	945,422	15,281	6,437,937
Balance as at December 31, 2020	4,842,782	382,842	20,064	792,638	7,004	6,045,330

27. PROPERTY, PLANT AND EQUIPMENT (continued)

The Bank does not have mortgaged buildings to secure repayment of the loans.

Due to incomplete cadastral books, on December 31, 2020 for 13 objects with the present value of RSD 131,694 thousand the Bank still does not have evidence of ownership (the number of facilities includes assets acquired through collection of receivables). The Bank's management takes all necessary measures for the acquisition of ownership papers. Completion of this process depends on the conduct of the competent national authorities.

In 2020, a total write-off of fixed assets and derecognition of permanently unusable fixed assets with the present value of RSD 357 thousand was made, of which, based on the Annual Count, shortages of RSD 146 thousand and surplus of RSD 322 thousand.

28. INVESTMENT PROPERTY

28.1. Changes in investment property during 2020 and 2019 are shown in the following table:

In thousands of RSD

	Total
Cost	
Balance as at 1 January 2019	2,195,432
Balance as at December 31, 2019	2,195,432
Balance as at 1 January 2020	2,195,432
Balance as at December 31, 2020	2,195,432
Impairment allowance	
Balance as at 1 January 2019	299,085
Depreciation (Note 17)	38,420
Balance as at December 31, 2019	337,505
Balance as at 1 January 2020	337,505
Depreciation (Note 17)	38,420
Balance as at December 31, 2020	375,925
Net book value	
Balance as at December 31, 2019	1,857,927
Balance as at December 31, 2020	1,819,507

As at December 31, 2020 the Bank has reported investment properties with the net book value of RSD 1,819,507 thousand, which comprise leased properities.

28. INVESTMENT PROPERTY (continued)

As of December 31, 2020, the net result from investment property is positive and amounts to RSD 47,548 thousand.

Property	Area in m²	Total expenses	Realized rental income	Difference in 000 RSD
Beograd, Trg Politike 1	3,354	(28,211)	57,640	29,429
Nis, Vrtiste nova d-zgrada	1,816	(4,681)	-	(4,681)
Nis, TPC Kalča	85	(828)	3,049	2,221
Beograd, Omladinskih brigada 9	15,218	(22,636)	9,118	(13,518)
Sabac, Majur, Obilazni put bb	1,263	(1,779)	-	(1,779)
Lovcenac, Marsala Tita bb	46,971	(2,984)	7,055	4,071
Negotin, Save Dragovica 20-22	658	(1,121)	-	(1,121)
Nis, Bulevar 12 Februar bb	816	(645)	6,913	6,268
Beograd, Radnička 22	7,190	(18,535)	37,678	19,143
Novi Sad, Vardarska 1/B,	291	(1,590)	-	(1,590)
Novi Sad, Bulevar Oslobodjenja 88, 3 lokala	44	(132)	3,397	3,265
Kotor, Stari Grad, Palata beskuca, business office, Br.1	207	(888)	6,534	5,646
Beograd, Luke Vojvodica 77a	80	(658)	852	194
Total		(84,688)	132,236	47,548

29. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In thousands of RSD

	December 31, 2020	December 31, 2019
Non-current assets held for sale and assets from discontinued operations	130,426	196,300
Total	130,426	196,300

Non-current assets held for sale:

In thousands of RSD

Property	Area in m²	Carrying Value
Jasika, business premises	75.87	484
Pozarevac, Mose Pijade 2, business office	826.82	25,070
Pozarevac, Mose Pijade 2, business office	880.86	20,744
Vrbas, M. Tita 49, business space	145.56	1,910
Kotor, business space 1 and 2	690.00	82,218
Beograd, Palmira Toljatija 5		130,426

During 2020, based on the fair value appraisals of an authorized external appraisers, a decrease in the value of non-current assets held for sale amounted to RSD 7,591 thousand.

In the first quarter of 2020, based on the decision of the Bank's Management, the Bank reclassified one real estate from the position of assets held for sale to fixed assets used for business activities, with a book value in the amount of RSD 58,283 thousand.
The Bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

30. OTHER ASSETS

Other assets comprise:

	December 31, 2020	December 31, 2019
	In thousands of RSD	
In RSD		
Fee receivables per other assets	93,729	116,335
Inventories	105,924	121,434
Foreclosed assets	2,295,185	2,280,027
Prepaid expenses	137,454	164,077
Equity investments	2,516,622	2,398,583
Other RSD receivables	2,247,288	3,782,343
	7,396,202	8,862,799
Impairment allowance on:		
Fee receivables per other assets	(81,165)	(78,391)
Foreclosed assets	(1,064,325)	(987,236)
Equity investments	(446,661)	(446,661)
Other RSD receivables	(807,868)	(830,057)
	(2,400,019)	(2,342,345)
In foreign currency		
Fee receivables per other assets	8	1,409
Other receivables from operations	564,131	367,911
Receivables in settlement	294,261	270,124
Other foreign currency receivables	702,775	283,728
	1,561,175	923,172
Impairment allowance on:		
Other receivables from operations	(263,782)	(265,877)
Receivables in settlement	(77,308)	(77,390)
	(341,090)	(343,267)
Total	6,216,268	7,100,359

30. OTHER ASSETS (continued)

Movements of other assets and prepayments impairment allowance is shown in the following table:

In thousands of RSD

	December 31, 2020	December 31, 2019
Individual impairment allowance		
Balance at January 1	246,679	243,567
Increase (Note 13)	2,979	4,621
Reversal (Note 13)	(1,109)	(1,509)
Total Individual impairment allowance	248,549	246,679
Group impairment allowance		
Balance at January 1	1,911,622	1,708,540
Increase (Note 13)	215,494	357,138
Effects of the changes in foreign exchange rates (Note 13)	(1,493)	(768)
Reversal (Note 13)	(141,366)	(104,681)
Permanent write-off	(6,812)	(11,234)
Other (Note 13)	(374)	(37,373)
Total Group impairment allowance	1,977,071	1,911,622
Balance as of December 31, exposed to credit risk	2,225,620	2,158,301
Impairment allowance of inventory (not exposed to credit risk)	68,828	80,650
Balance as at December 31, 2020 (without impairment of equity investments)	2,294,448	2,238,951
Impairment of equity investments	446,661	446,661
Total impairment of other assets	2,741,109	2,685,612

30. OTHER ASSETS (continued)

a) Equity investments

Other assets also comprise equity investments and are shown in the following table:

	December 31, 2020	December 31, 2019
	In thousands of RSD	
Equity investments in banks and other financial organizations	80,270	80,270
Equity investments in companies and other legal entities	458,725	465,249
Equity investments in non-resident entities abroad	1,977,627	1,853,064
	2,516,622	2,398,583
Impairment allowance of:		
Equity investments in banks and other financial organizations	(80,270)	(80,270)
Equity investments in companies and other legal entities	(366,391)	(366,391)
	(446,661)	(446,661)

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity investments in companies mostly relate to: 14. Octobar a.d. Krusevac in the amount of RSD 324,874 thousand, Dunav osiguranje a.d.o. Beograd in the amount of RSD 81,242 thousand, RTV Politika d.o.o. Beograd in the amount of RSD 37,634 thousand, Beogradska berza a.d. in the amount of RSD 2,246 thousand and Politika a.d. Beograd in the amount of RSD 1,381 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 1,565,824 thousand and MASTER Card in the amount of RSD 411,803 thousand.

Impairment allowance of equity investments totaling RSD 446,661 thousand relates to the impairment of cost of those equity investments that have no market value, out of which the major portion refers to: 14. October a.d., Krusevac in the amount of 324.874 thousand dinars, Euroaxis bank Moscow worth 78.387 thousand dinars, RTV Politika Belgrade driver, to the tune of thousands of dinars 37.633, Politika a.d. and PPD Dobricevo d.o.o. Cuprija amounting to RSD 2,563 thousand.

b) Other receivables and receivables from operations

Other RSD receivables mostly refer to receivables from purchase and sale of foreign currencies totaling to RSD 352,770 thousand (impairment of RSD 762 thousand), operating receivables of RSD 203,153 thousand (impairment of RSD 79,462 thousand), foreclosed assets of RSD 2,295,185 thousand (impairment of RSD 1,064,325 thousand), advances paid for working capital assets of RSD 51,956 thousand, (impairment of RSD 6,557 thousand), rental receivables of RSD 377,166 thousand (impairment of RSD 285,873 thousand) and interest receivables per other assets of RSD 201,971 thousand (impairment of RSD 154,057 thousand) and receivables from operations per court verdict totaling to RSD 209,085 thousand (written off in total, 100%).

30. OTHER ASSETS (continued)

v) Foreclosed assets

Foreclosed assets totaling to RSD 2,295,185 thousand gross, less recorded impairment allowance of RSD 1,064,325 thousand, with the net carrying value of RSD 1,230,860 thousand relate to:

I Foreclosed properties classified in accordance with the classification decision that applied before December 30, 2013.

In thousands of RSD

Description	Area in m^2	Value	Date of acquisition
Novi Pazar, Kej Skopskih zrtava,44 local	82.95	1,910	27.09.2006.
Gnjilica, field VII class	2,638	53	15.04.2008.
Cacak, Hotel "Prezident", Bulevar oslobodjenja bb	2,278.92	68,748	21.01.2009.
Budva, Montenegro, forest, IV class	8,292	82	12.10.2010.
Buce, forest, IV class	974	3,612	27.05.2011.
Prijevor, forest IV class	1,995	4,179	27.05.2011.
Belgrade, 14 Miajla Avramovic, building	925.35	147,436	21.11.2011.
Krusevac, Kosevi, production and office building I.C.P.	12,836	40,194	08.06.2012.
Mladenovac, Sopot-Nemenikuce, field III class	16,633	240	25.06.2012.
Obrenovac, Mislođin, field III class	10,017	947	11.07.2012.
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,184	24.07.2012.
Majur, Tabanovačka, field	14,452	1,468	10.08.2012.
Mali Požarevac, large field, field III and IV classes	21,915	288	27.09.2012.
Cuprija, Aleksa Santic 2/24, apartment	72.40	728	15.01.2013.
NIS, Ivana Milutinovica 30, business office	438.39	4,420	23.04.2013.
NIS, Triglavska 3/1, flat	79.80	2,842	04.06.2013.
Mladenovac, field-lug III class	1,142	377	18.07.2013.
NIS, Bulevar 12. februar, outhouse-storage	2,062	35,113	30.07.2013.
Kula,Zeleznicka bb,business office,land	7,959	19,741	01.10.2013.
Prijepolje, Karosevina, sawmill	450	753	08.11.2013.
Total I		336,315	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

II Foreclosed properties classified in accordance with the classification decision that is applied after December 30, 2013

In thousands of RSD

Description	Area in m2	Value	Date of acquisition
Vukovac,, Milatovac, agricultural land	132,450	458	16.05.2014.
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	40,165	08.05.2014.
Subotica, Magnetic fields, 17, production hall and warehouse	2,492	40,051	18.07.2014.
Mokra Gora, land, forests, fields, houses	58,400	3,288	31.01.2014.
Kopaonik, House with land	337	3,533	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 6/3	29	2,666	31.01.2014.
Novi Sad, Bulevar oslobodjenja 30 and commercial property 7/3	44	4,045	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 8/3	35	3,218	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 9/3	34	3,126	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 10/3	39	3,585	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, commercial/23	253	17,473	31.01.2014.
Novi Sad, Tihomira Ostojica 4, office space 7	134	4,964	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 8	81	4,281	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 9	79	4,175	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 10	408	22,177	31.01.2014.
Zrenjanin, Novosadski put 4, building, pump and land	9,144	30,165	14.08.2014.
Budva, Rezevici, Montenegro, rocks, forest	1,363.20	18,149	22.07.2014.
Budva, Rezevici, Montenegro, forest V class	5,638.54	74,111	22.07.2014.
NIS, Ivana Gorana Kovacica 31, residential building	434.58	3,914	17.04.2013.
Mladenovac, Americ, field IV class	7,768	228	03.10.2014.
Valjevo, Radjevo selo, warehouse	394	380	11.06.2014.
Bela Crkva, Kajtasovo, forest	4,187	64	03.10.2014.
Mladenovac, fields, orchards	25,136	484	03.10.2014.
Valjevo, Vojvode Misica 17, family building	106	1,483	25.09.2014.
NIS, Cajnicka bb, residential buildings with additional building	825.74	9,309	14.03.2013.
NIS, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	11,461	14.03.2013.
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	87,043	16.06.2014.
NIS, Sumadijska 1, Office space	504.60	1,567	04.12.2014.
Valjevo, Worker 6, place	69	2,410	28.05.2014.
Prokuplje, field III class	12,347	509	28.08.2015.
Mionica, Prote Zarko Tomovica bb, House	107	1,506	10.09.2015.
Prokuplje, Maloplanska 7, building with land	490	243	11.06.2012.
Sokobanja, agricultural land, Orchard, field IV class	417,908	4,932	31.07.2012.
Sokobanja, production hall with land	5,042	20,491	31.07.2012.
Sokobanja, space with land	2,005	589	31.07.2012.
Sokobanja, House with land	4,194	3,185	31.07.2012.
Belgrade, Pivljanina 83, residential buildings	278.52	52,587	23.08.2012.
Divcibare, meadows V class	8,012	3,835	02.12.2015.
Lebane, Branka Radičevica 17, residential and commercial building	768.42	4,945	27.08.2015.
Sid, Jamene, field, krcevinai cerje IV and V class	29,515	1,200	11.03.2016.
Loznica, Lipnica, Karađorđeva, residential and commercial building with land	146	1,793	15.10.2015.
Vrhpolje, lodging hospitality	1,334	2,049	16.05.2013.
Krusevac, century village, a concrete base with land	100,560	117,752	11.03.2016.
Zrenjanin, Bagljas, pasture II class	230	44	22.12.2015.
Svilajnac, Kodublje, Office building, halls and land	10,462	26,633	26.02.2016.
Aleksandrovo, Merosina, building with land	8,527	12,690	23.12.2015.
Cacak, Suvo polje, buildings 1 and 2 with land	1,225	10,382	05.05.2016.
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	209	31.03.2016.
Valjevo, Bobove, field VI and VII class	20,599	278	19.05.2016.
Kotor, Montenegro, Office space, building No. 1	106	18,514	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	60,135	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	53,481	22.12.2016.
Nis, Trg Ucitelja Tase br. 10/1, office space	79.40	5,489	13.03.2019.
Curug, Nikole Pasica bb, silos with additional facilities	910	55,280	07.10.2019.
Zabari, fileds III class	12,732	294	08.03.2017.
Kula, Zeleznicka bb, field I class	177	17	10.02.2020.
Novi Sad, Petra Drapsiina 29, apartment	154	13,447	14.10.2020.
Total II		870,482	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

III Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of on-balance and off-balance sheet items

In thousands of RSD

Description	Value	Date of acquisition
Krusevac, moveable assets (machinery, furniture, equipment)	5,544	08.06.2012.
Nis and Soko Banja Moveable assets (lines for processing coffee, transport devices and devices for maintaining hygiene)	4,975	31.07.2012.
Paracin, lines for production for coffee	2,048	31.12.2012.
Vranic, lines for production	3,452	09.07.2013.
Total III	16,019	

IV Equipment acquired in periods after December 30, 2013 – which classify as balance and off-balances items in accordance with the relevant NBS decision

In thousands of RSD

Description	Value	Date of acquisition
Moveable property, agricultural equipment and tools	48	03.06.2015.
Equipment supplies raw materials	1,242	18.07.2014.
Movables, installation material	487	13.05.2014.
Other	6,267	07.10.2019.
Total IV	8,044	

V Securities acquired through the collection of receivables

In thousands of RSD

Description	Value	Date of acquisition
Securities acquired through the collection of receivables	1,940	12.09.2019.
Impairment of securities	(1,940)	
Total V	-	
Total (current value) I + II+ III+ IV+V	1,230,860	

30. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

The effect of the impairment of assets acquired through collecting receivables in 2020 is shown in the table:

In thousands of RSD

Effects of property impairment	74,724
Effects of equipment impairment	2,712
Total impairment of real estate and equipment	77,436

Total negative effect amounted to RSD 77,436 thousand and it was recognized as expense of a period as follows (note 13):

- Impairment of real estate in the amount of RSD 60,538 thousand based on the estimated lower market value of real estate and land, as well as impairment calculated in accordance with the internal act due to the inability to sell for a period longer than twelve months in the amount of RSD 14,186 thousand for real estate whose fair value is higher than net book value
- for equipment in the amount of RSD 2,712 thousand based on the estimate of the lower market value and in accordance with the Bank's internal act

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

30. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.1 Appraisal value of foreclosed properties

In thousands of RSD

Property	Area in m^2	Book value before the appraisal	Appraisal value In EUR	Appraisal value Net current value in RSD	Difference in value
Belgrade, Mihaila Avramovica 14a,building	925.35	156,017	1327	147,436	(8,581)
Krusevac, St. selo, a concrete base with land	100,560	124,605	1060	117,752	(6,853)
Cacak, Hotel "Prezident", Bulevar oslobodjenja BB	2,278.92	82,315	700	68,748	(13,567)
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	92,109	783	87,043	(5,066)
Budva, Rezevici, Montenegro, forest V class	5,638.54	76,958	655	74,111	(2,847)
Curug, Nikole Pasica bb, silos with auxiliary facilities	910	58,498	498	55,280	(3,218)
Kotor, Montenegro, Office space, building No. 1 PD 4	345	60,714	516	60,135	(579)
Kotor, Montenegro, Office space, building No. 1 PD6	345	56,594	481	53,481	(3113)
Belgrade, Pivljanina 83, Office building	278.52	55,648	473	52,587	(3,061)
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	42,503	361	40,165	(2,338)
Subotica,Magnetna polja 17, production hall and warehouse	2,492	42,382	360	40,051	(2,331)
Krusevac, Kosevi bb, production and office building I.C.P.	12,836	42,533	362	40,194	(2,339)
NIS, Bulevar 12. Februara bb, extra building-warehouse	2,062	37,157	316	35,113	(2,044)
Sokobanja, link, port, with land, Orchard, House, field IV cl.	429,149	30,819	262	29,197	(1,622)
Zerenjanin,Bagljas,Novosadski put 4,building,pump,land, pasture	9,374	31,968	272	30,209	(1,759)
Svilajnac, Kodublje, partner, buildings, halls and land	10,462	28,183	240	26,633	(1,550)
Novi Sad, Polgar Andrasa 40/a, pressing business. Space 10	408	23,468	200	22,177	(1,291)
Kula, Zeleznicka bb, commercial property, land	7,959	20,890	178	19,741	(1,149)
Kotor, Montenegro, Office space, building No. 1 PD2	106	19,591	167	18,514	(1,077)
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	18,490	157	17,473	(1,017)
Budva,Rezevici, Montenegro,forest	1,363.20	18,846	160	18,149	(697)
Novi Sad, Petra Drapsina 29, apartment	154	14,230	121	13,447	(783)
Aleksandrovo, Merosina, administration building with land	8,527	13,428	114	12,690	(738)
Nis, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	12,128	103	11,461	(667)
Cacak, Suvo polje,building 1 and 2 with land	1,225	10,986	93	10,382	(604)
Nis, Cajnicka BB, building	825.74	9,851	84	9,309	(542)
Nis, Trg Ucitelja Tase no. 10/1, local	79.40	5,808	49	5,489	(319)
Novi Sad, Tihomira Ostojica 4, business office 7	134	5,253	45	4,964	(289)
Lebane, Branka Radičevica 17, residential and commercial building	768.42	5,233	45	4,945	(288)
NIS, Ivana Milutinovica 30, business space	438.39	4,677	40	4,420	(257)
Novi Sad, Polgar Andrasa 40/a, , business space 8	81	4,530	39	4,281	(249)
Novi Sad, Polgar Andrasa 40/a, , business space 9	79	4,418	38	4,175	(243)
Novi Sad, Bulevar Oslobodjenja 30a, business space (5 local)	181	17,608	150	16,640	(968)
Prijevor, forest 4 class	1,995	4,339	37	4,179	(160)
NIS, Ivana Gorana Kovacica 31, residential area	434.58	4,142	35	3,914	(228)
Divcibare, meadows V class	8,012	3,982	34	3,835	(147)
Mokra Gora, houses and meadows	58,400	3,479	30	3,288	(191)
Kopaonik, House with land	337	3,739	32	3,533	(206)
Budva, forest IV class	974	3,751	32	3,612	(139)
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,369	29	3,184	(185)
Nis, Triglavska 3/1, apartment	79.8	3,007	26	2,842	(165)
Valjevo, Radnicka 6, apartment	69	2,550	22	2,410	(140)
Other (31 property)	-	20,725	176	19,608	(1,117)
TOTAL		1,281,521		1,206,797	(74,724)

30. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.2 Appraisal value of foreclosed equipment

In thousands of RSD

Description	Book value before the appraisal	Net current value in RSD	Difference in value
Movable assets	12,296	11,005	(1,291)
Equipment, supplies, secundary raw material	8,636	7,558	(1,078)
Other	6,189	5,846	(343)
Total	27,121	24,409	(2,712)

For three movable items with a total value of RSD 96 thousand, the Bank does not hold any book ownership (items recorded in off-balance sheet records). The Bank's management takes all necessary measures to sell the acquired assets.

31. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

Deposits and other liabilities due to banks and other financial institutions comprise:

In thousands of RSD

	December 31, 2020	December 31, 2019
Demand deposits	4,581,556	2,290,676
Term deposits	230,612	2,696,719
Overnight deposits	150,000	-
Other	27,147	34,361
Balance as at December 31	4,989,315	5,021,756

During 2020 deposits were 0.09% for RSD and foreign currency term deposits placed by banks were deposited at interest rate of 1.2% to 1.5% for USD and 0.05% to 0.07% for EUR. Interest rates on deposits taken from subsidiary foreign banks ranged from 0.1 to 1.25% for USD deposits.

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS

Deposits and other liabilities due to customers comprise:

In thousands of RSD

	December 31, 2020	December 31, 2019
Corporate customers and agro		
Demand deposits	77,792,263	66,490,499
Overnight and other deposits	16,109,013	9,669,464
Borrowings	977,225	1,426,861
Special-purpose deposits	2,329,833	1,874,311
Deposits for loans approved	648,554	512,003
Interest payable, accrued interest liabilities and other financial liabilities	694,654	501,280
Retail customers – private individuals		
Demand deposits	47,618,377	36,182,657
Savings deposits	216,205,003	210,219,965
Special-purpose deposits	6,691,310	5,081,330
Deposits for loans approved	2,481,075	2,287,268
Interest payable, accrued interest liabilities and other financial liabilities	987,685	901,117
Other deposits	164,409	170,399
Total	372,699,401	335,317,154

Corporate Customer's Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities.
In accordance with the Decision on Interest Rates for 2020, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand.
Foreign currency demand deposits of non-resident customers are non-interest bearing, except for specific business arrangements.

In 2020 short-term RSD deposits of corporate customers were placed at annual interest rates ranging between: 1.25% on deposits placed from 3 to 14 days to annual key policy rate less 0.25 percentage points for deposits placed up to a year per annum with minimum RSD 300 thousand deposited. Short-term deposits of entrepreneurs were placed at an interest rate ranging between 0.25% and 1.20% annually with minimum RSD 300 thousand deposited.

Short-term foreign currency deposits of corporate customers and entrepreneurs were placed at an interest rate ranging between 0.05% and 0.40% annually for EUR deposits and from 0.40% to 1.00% for USD.

Long-term RSD deposits of corporate customers were placed at an interest rate determined by the amount of the National Bank of Serbia key policy annual rate, whereas those denominated in foreign currency accrued interest at the annual rate from 0.50% to 0.70% for EUR and from 1.30% to 1.40% annually for USD.

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

Retail deposits

Domestic and foreign currency savings deposits of the private individuals during 2020 were non-interest bearing.
Short-term retail deposits in dinars were deposited at interest rates ranging from 1.00% to 2.50% annually, and in foreign currency from 0.05% to 0.35% for EUR, and for other currencies from 0.10% to 1.00% annually.
Long-term retail deposits in dinars are deposited at interest rates ranging from 2.75% to 3.00% annually, and in foreign currency from 0.65% to 1.50% for EUR, and for other currencies from 1.00% to 1.90% annually
During the year, the Bank also offered special interest rates on share savings, with limited periods of validity that are not disclosed.
Within the liabilities arising from loans, the total liabilities on foreign credit lines to foreign legal entities that are defined as customers for the balance sheet purposes are recognized.
The structure of long-term and short-term loans that are stated in the position of liabilities to customers is as follows:

In thousands of RSD

	December 31, 2020	December 31, 2019
Long-term loans		
Government of the Republic of Italy	5,487	36,139
European Investment Bank (EIB)	970,366	1,376,259
European Agency for Reconstruction and Development (EAR)	1,372	14,463
Total	977,225	1,426,861

The maturity of the loans presented is between 2021 and 2030.

For credit lines (tripartite), the Bank has no contractual obligations with creditors related to financial indicators (monitoring/reporting).

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

32.1. Structure and movement of deposits and other financial liabilities to banks, other financial organizations, central bank and customers are shown below

	In thousands of RSD 2020	2019
Balance, January 1		
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 31)	5,021,756	5,662,748
Deposits and other finan. liabilities to other customers (note 32)	335,317,154	317,229,084
Balance, January 1	340,338,910	322,891,832
Net inflows / outflows - deposits	37,092,014	19,184,637
Net inflows / outflows - loans	919,055	(1,255,956)
Net inflows / outflows - interest	(953,415)	(919,958)
Net inflows / outflows - fees	(4,165)	(6,320)
Foreign exchange differences	(824,495)	(567,930)
Accrued interest and other non-cash transactions	1,120,812	1,012,605
Balance at December 31	377,688,716	340,338,910

	In thousands of RSD December 31, 2020	December 31, 2019
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 31)	4,989,315	5,021,756
Deposits and other finan. liabilities to other customers (Note 32)	372,699,401	335,317,154
Total banks and customers	377,688,716	340,338,910

33. PROVISIONS

Provisions relate to:

	In thousands of RSD December 31, 2020	December 31, 2019
Provisions for off-balance sheet items (Note 13)	224,463	190,977
Provisions for litigations (Note 36.4)	1,707,301	1,614,874
Provisions for employee benefits in accordance with IAS 19	597,504	522,279
Balance at December 31	2,529,268	2,328,130

33. PROVISIONS (continued)

Movements on the accounts of provisions are provided below:

In thousands of RSD

	2020				2019			
	Off-balance sheet provisions (Note 13)	Provisions for litigation (Note 36.4)	Provisions for employee benefits (IAS 19)	Total	Off-balance sheet provisions (Note 13)	Provisions for litigation (Note 36.4)	Provisions for employee benefits (IAS 19)	Total
Balance at January 1	190,977	1,614,874	522,279	2,328,130	274,954	900,152	478,557	1,653,663
Payments	235,337	1,007,519	79,181	1,322,037	244,521	1,252,461	31,599	1,528,581
Provisions against actuarial gains within equity	-		(3,956)	(3,956)	-		12,609	12,609
Release of provisions	-	(139,763)	-	(139,763)	-	(25,405)	-	(25,405)
Reversal of provisions	(201,851)	(775,329)	-	(977,180)	(328,498)	(512,334)	(486)	(841,318)
Balance at December 31	224,463	1,707,301	597,504	2,529,268	190,977	1,614,874	522,279	2,328,130

a) Provisions for litigations

A provision was done on the basis of estimates of future outflows in the amount of claims, including interest and costs. Total provisions for 15,558 cases as of 31 December 2020 amounted to RSD 1,707,301 thousand.

In comparison with 31 Decemebr 2019 there was a change in the overall level of provision in the net amount RSD 92,427 thousand. Of that, a change that relates to the additional provisions for litigations is RSD 232,190 thousand, recognized in the income statement, while the reduction of provisions totaling to RSD 139,763 thousand refers to the use of the provisions for payments and for passed court verdicts.

The largest number of disputes concerns claims for payment of credit processing fees, damages and determination.

b) Provisions for retirement benefits

Provisions for retirement benefits are formed on the basis of an independent actuary's report at the balance sheet date, and are stated in the amount of the present value of expected future payments. Main actuarial assumptions used in the calculation of provisions for retirement benefits:

	31 December 2020	31 December 2019
Discount rate	4.00%	4.00%
Salary growth rate within the Bank	3.00%	2.00%
Salary growth rate at the national level	6.00%	-
Employee turnover	5.00%	4.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate. One of the actuarial assumptions in the calculation of the necessary provisions for retirement benefits in 2020 is the growth rate of salaries at the national level of 6%.

34. OTHER LIABILITIES

Other liabilities include:

In thousands of RSD

	December 31, 2020	December 31, 2019
Payables	127,031	211,615
Liabilities to employees (salaries, taxes, contributions and other liabilities to employees)	26,196	70,502
Advances received	27,473	23,310
Leasing liabilities	821,322	962,168
Deferred income from interest and fees and other income	306,737	132,796
Accrued liabilities and other accruals	1,339,692	636,227
Liabilities on transitional accounts	1,866,452	2,312,258
Liabilities from profit	183,667	9,229,643
Liabilities for taxes and contributions	7,461	14,654
Other liabilities	269,445	268,057
Balance at December 31	4,975,476	13,861,230

Liabilities on transitional accounts in the amount of RSD 1,866,452 thousand mainly relate to liabilities arising from the purchase and sale of foreign currency by banks in the amount of RSD 352,741 thousand, liabilities in the calculation based on the purchase and sale of foreign currency on the foreign exchange market in the amount of RSD 235,160 thousand, liabilities in the account for liquidated foreign currency accounts of domestic legal entities in the amount of RSD 112,091 thousand, liabilities for unpaid dividends to legal entities in the amount of RSD 184,986 thousand, liabilities based on closed customer accounts in RSD in the amount of RSD 120,837 thousand, liabilities in settlement based on liquidated foreign currency accounts of foreign legal entities in the amount of RSD 57,145 thousand and liabilities in settlement on other bases in rsd in the amount of RSD 60,821 thousand.

a) Liabilities from profit in the total amount of RSD 183,667 thousand consist of:
- dividend payable on preference shares in the amount of RSD 4,251 thousand,
- liabilities from profit to employees in the amount of RSD 179,417 thousand

Based on the decisions of the Bank's Assembly and after fulfilling all the necessary conditions prescribed by the Banking Law, the Bank's Executive Board made decisions on the payment of dividends for the business years 2014, 2015, 2016, 2017, 2018 and 2019. Dividends were paid in cash on September 21, 2020 to the bank's shareholders - persons who were registered in the Central Registry, Depot and Clearing of Securities as legal holders of the bank's shares on the day of dividend. At the same time, payment was made to employees from the profit for the years 2014, 2017, 2018 and 2019, which reduced the obligation on this basis as well. The remaining amount of liabilities based on dividends in the amount of RSD 4,251 thousand refers to liabilities from the period before 2014 and liabilities to shareholders who did not submit instructions for the payment of dividends.

34. OTHER LIABILITIES (continued)

b) Leasing liabilities

	In thousands of RSD
Opening balance as at January 1	962,168
Interest expenses	15,364
Interest income - termination of contracts	(148)
Expenses from the negative currency clause of the leasing contract	895
Income from the positive. val. Leasing clauses	(989)
Taxes for legal entities and individuals	65,222
Other net income from leasing	(484)
Leasing payments during the year	(428,615)
Net new contracts and amendment of existing ones	188,975
Other	18,934
Balance as at December 31	821,322

35. EQUITY

35.1 Equity is comprised of:

	In thousands of RSD December 31, 2020	December 31, 2019
Issued capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	22,147,207	18,565,207
Revaluation reserves	6,585,755	6,826,518
Retained earnings	2,390,590	1,470,139
Profit / (Loss) for the period	2,928,761	8,955,759
Balance as at December 31	74,086,863	75,852,173

The Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank as well as to shares in profit distribution. As of December 31, 2020 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

Breakdown of the Bank's shares is provided in the table below:

Share type	Share count December 31, 2020	December 31, 2019
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	17,191,466	17,191,466

The structure of the Bank's shareholders with ordinary (common stock) shares at December 31, 2020 was as follows:

Name of the shareholder	No. of shares	% participation
NLB d.d. Ljubljana	13,997,686	83.23
OTP BANKA SRBIJA (custodyaccount)	464,919	2.76
Jugobanka a.d., Beograd – in l bankruptcy	321,600	1.91
Dunav Osiguranje a.d. Beograd	290,214	1.73
BDD M&V INVESTMENTS AD BEOGRAD (cumulative рачун)	272,590	1.62
GLOBAL MACRO ABSOLUTE RETURN A	133,148	0.79
GLOBAL MACRO CAPITAL OPPORTUNITIES	131,568	0.78
Stancom co. d.o.o. Beograd	117,535	0.70
East capital (lux)-Balkan fund	116,756	0.69
GLOBAL MACRO PORTFOLIO	84,003	0.50
FRONT MARK OPPORTUN.MASTER	68,404	0.41
DEKA INZENJERING	65,580	0.39
I.N. DRENIK NONWOVENS TRADING	58,950	0.35
ALLIANCEBERNS.NEXT 50E.M.(M)F.	46,837	0.28
Other (1,084 shareholders)	648,166	3.86
	16,817,956	100.00

The structure of the Bank's shareholders with preferred shares at December 31, 2019 was as follows:

In thousands of RSD

Shareholder	Share Count	% share
An individual	85,140	22,79
Jugobanka a.d., Beograd in bankruptcy	18,090	4,84
Others (624 shareholders)	270,280	72,37
	373,510	100.00

35. EQUITY (continued)

35.1 Equity is comprised of (continued)

On June 26, 2019 the Ministry of Finance of the Republic of Serbia repurchased shares which were held by the shareholders DEG-DEUTSHE INVESTITIONS and SVEDFUND INTERNATIONAL in the total percentage of 6.90%, and on November 26, 2019 repurchased EBRD shares 24.43%, IFC CAPITALIZATION FUND LP shares 10.15%, which increased percentage of ownership of Serbian Government to 83.23%.

On February 26, 2020 the Ministry of Finance of the Republic of Serbia announced that the representatives of Nova Ljubljanska banka d.d. (NLB) and the Minister of Finance of the Republic of Serbia, signed an Agreement on the purchase and sale of 83.23% of ordinary shares of Komercijalna banka AD Belgrade.
By signing this agreement, the Bank acquired a new strategic partner, who took over the management of the Bank after the completion of the transaction.

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

Revaluation reserves amounting to RSD 6,585,755 thousand (2019: RSD 6,826,518 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 990,269 thousand, revaluation reserves from valuation of equity instruments in the amount of RSD 1,731,022 thousand, revaluation reserves arising from the valuation of debt securities amounting to RSD 3,748,242 thousand and actuarial gains of RSD 115,222 thousand. Presented values include deferred tax effects.

35.2. Earnings per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	2020	2019
Earnings minus preferred dividend (In RSD thousand)	2,916,958	8,942,686
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	173	532

Basic earnings per share for the year 2020 amounts to RSD 173 or 17.34% of the nominal value of ordinary shares, while for 2019 earning per share was RSD 532, or 53.17% of the nominal value of the ordinary shares.

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

An analysis of assets and liabilities according to when they are expected to be due or settled is shown in the table below:

In thousands of RSD

December 31, 2020	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	80,045,107	-	80,045,107
Securities	19,023,527	134,752,796	153,776,323
Loans and receivables from banks and other financial organisations	14,749,418	3,392,652	18,142,070
Loans and receivables from clients	53,080,564	136,215,525	189,296,089
Investments into subsidiaries		3,433,697	3,433,697
Intangible assets	-	510,669	510,669
Property, plant and equipment	-	6,045,330	6,045,330
Investment property	-	1,819,507	1,819,507
Current tax assets	12,237	-	12,237
Non-current assets held for sale and discontinued operations	130,426	-	130,426
Other assets	4,134,132	2,082,136	6,216,268
TOTAL ASSETS	171,175,411	288,252,312	459,427,723
Deposits and other liabilities to banks, other financial organisations and central bank	4,968,751	20,564	4,989,315
Deposits and other financial liabilities to clients	345,535,991	27,163,410	372,699,401
Provisions	-	2,529,268	2,529,268
Deffered Tax Liabilities	-	147,400	147,400
Other liabilities	4,453,086	522,390	4,975,476
TOTAL LIABILITIES	354,957,828	30,383,032	385,340,860
Net	(183,782,417)	257,869,280	74,086,863

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

In thousands of RSD

December 31, 2019	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	67,558,219	-	67,558,219
Securities	22,033,205	116,436,346	138,469,551
Loans and receivables from banks and other financial organisations	23,843,214	890,744	24,733,958
Loans and receivables from clients	59,100,978	121,751,585	180,852,563
Investments into subsidiaries		3,433,697	3,433,697
Intangible investments	-	665,735	665,735
Property, plant and equipment	-	6,437,937	6,437,937
Investment property	-	1,857,927	1,857,927
Deferred tax assets	-	1,074,197	1,074,197
Non-current assets held for sale and discontinued operations	196,300	-	196,300
Other assets	5,146,956	1,953,403	7,100,359
TOTAL ASSETS	177,878,872	254,501,571	432,380,443
Deposits and other liabilities to banks, other financial organisations and central bank	4,880,542	141,214	5,021,756
Deposits and other financial liabilities to clients	295,487,098	39,830,056	335,317,154
Provisions	-	2,328,130	2,328,130
Other liabilities	13,228,349	632,881	13,861,230
TOTAL LIABILITIES	313,595,989	42,932,281	356,528,270
Net	(135,717,117)	211,569,290	75,852,173

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In thousands of RSD

	December 31, 2020	December 31, 2019
Operations on behalf and for the account of third parties	4,097,143	4,152,268
Commitments	42,879,760	53,595,618
Receivables under repurchase agreements	1,175,802	-
Other off-balance sheet items	441,152,366	402,692,145
Total	489,305,071	460,440,031

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

37.1 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

	In thousands of RSD December 31, 2020	December 31, 2019
Payment guarantees (note 4.1.1.)	4,014,943	4,210,006
Performance guarantees (note 4.1.1.)	6,116,729	4,764,048
Letters of credit	169,229	281,963
Balance as at December 31	10,300,901	9,256,017

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

37.2 Commitments

The breakdown of commitments is provided below:

	In thousands of RSD December 31, 2020	December 31, 2019
Unused portion of approved payment and credit card loan facilities and overdrafts	11,058,537	10,970,821
Irrevocable commitments for undrawn loans	21,252,952	32,550,431
Other irrevocable commitments	267,370	818,349
Balance as at December 31	32,578,859	44,339,601

37.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Funds managed on behalf and for the account of third parties amount to RSD 4,097,144 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,770,646 thousand and relate to the long-term housing loans extended to retail customers, loans on the basis of the purchase of social apartments of budget institutions in the amount of RSD 334,127 thousand (loans taken from Beobanka in bankruptcy). Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 441,152,366 thousand, the Bank, among other things, records nominal value of securities per custody operations performed for the account of its clients RSD 63,867,817 thousand, the nominal value of the securities in the portfolio of the Bank RSD 143,953,590 thousand, the amount written-off of funds in dollars in the amount of 30,400,483 thousand dinars, and the amount written-off of financial assets in foreign currency in the amount of 3,780,379 thousand dinars, according to the NBS of the accounting write off balancing assets. The Bank according to the issued permission to perform custody jobs saved and financial instruments in the accounts of clients' securities, what is off-balance evidence. The Bank takes no credit risk in respect of managed funds.

Moreover, in accordance with the regulations, other off-balance sheet assets include the value of the tangible assets received as collaterals securitizing loan repayment: residential and commercial real estate properties and other collaterals that amount to RSD 178,548,313 thousand.

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

37.4 Litigation

Based on the expert judgment of the Bank's Legal Department and the lawyers representing the Bank, in disputes against the Bank during 2020, the Bank's management made provisions for potential losses in litigation in the amount of RSD 1,707,301 thousand (2019: RSD 1,614,874 thousand) (Note 33).

As at December 31, 2020 the Bank has 21,338 registered proceedings against the Bank, the total value of RSD 7,184,792 thousand. The stated number and value of the proceedings includes 20 proceedings in the total value of RSD 3,404 thousand, which were closed in January 2021.

This amount includes both binding claims for payment and the values of the subject matter of the dispute indicated in the lawsuits with the determining claim. The stated amount does not include the amounts of interest and court expenses.

In addition, as at December 31, 2020 the Bank has 12,942 registered proceedings against third parties, whose total value of the subject matter of the dispute is RSD 45,601,540 thousand.

37.5 Tax Risks

Tax systems in the Republic of Serbia is undergoing continuous amendments. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognized in the financial statements are fairly presented.

38. RELATED PARTY DISCLOSURES

Legal entities and individuals are considered related parties if one party has control, joint control or significant influence in making financial and operating decisions of another legal entity. Related parties are also those who are under the common control of the same parent company.

In the normal course of business, a number of banking transactions are performed with subsidiaries. These include loans, deposits, investments in equity securities, derivative instruments, payment transactions and other banking operations.

38.1 Shareholders and subsidiaries

NLB d.d. Ljubljana, which owns 83.23% of the Bank's ordinary shares, has the largest share in the management rights of the Parent Bank. The Parent bank has three subsidiaries: Komercijalna banka a.d., Podgorica, Komercijalna banka a.d., Banja Luka and KomBank INVEST a.d., Belgrade.

38. RELATED PARTY DISCLOSURES (continued)

38.1 Parent Bank and subsidiaries (continued)

Transactions with dependent persons are shown in the following tables:

A. Balance as at December 31, 2020

RECEIVABLES *In thousands of RSD*

Subsidiarieds	Loans and Receivables	Intrest and fee	Other Assets	Alowance	Net Balance Exposure	Off-Balance Sheet Items	Total
1.Komercijalna banka AD Podgorica	535,833	871	960	379	537,285	1,763,703	2,300,988
2 Komercijalna 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 thousands of RSD*

Subsidiaries	Deposits and loans	Intrest and fee	Other liabilities	Total
1.Komercijalna banka AD Podgorica	1,031,864	-	-	1,031,864
2 Komercijalna banka AD Banja Luka	223,493	-	-	223,493
3. Kombank Invest	228	-	-	228
Total:	1,255,585	-	-	1,255,585

INCOME AND EXPENSES *In thousands of RSD*

Subsidiaries	Interest income	Fee and Commission Income	Interest expenses	Fee and Commission Expense	Net income/ expenses
1.Komercijalna banka AD Podgorica	11,343	3,868	(1,569)	(6)	13,636
2 Komercijalna banka AD Banja Luka	4,042	2,316	-	(758)	5,600
3. Kombank Invest	-	2,344	-	-	2,344
Total	15,385	8,528	(1,569)	(764)	21,580

Komercijalna Banka AD Beograd realized net negative exchange rate differences in the amount of RSD 65,875 thousand on the basis of transactions with its subsidiaries (in 2019: net negative exchange rate differences in the amount of RSD 7,288 thousand).

38. RELATED PARTY DISCLOSURES (continued)

38.1 Parent Bank and subsidiaries (continued)

A. Balance as at December 31, 2019

RECEIVABLES *In thousands of RSD*

Subsidiarieds	Loans and Receivables	Intrest and fee	Other Assets	Alowance	Net Balance Exposure	Off-Balance Sheet Items	Total
1.Komercijalna banka AD Podgorica	6,675	889	-	89	7,475	1,111,252	1,118,727
2 Komercijalna banka AD Banja Luka	83,967	25	549	973	83,568	1,999,078	2,082,646
3. Kombank Invest	-	253	-	1	252	200	452
Total:	90,642	1,167	549	1,063	91,295	3,110,530	3,201,825

LIABILITIES *In thousands of RSD*

Subsidiaries	Deposits and loans	Intrest and fee	Other liabilities	Total
1.Komercijalna banka AD Podgorica	950,104	-	7	950,111
2 Komercijalna banka AD Banja Luka	154,073	-	-	154,073
3. Kombank Invest	25	-	-	25
Total	1,104,202	-	7	1,104,209

INCOME AND EXPENSES *In thousands of RSD*

Subsidiaries	Interest income	Fee and Commission Income	Interest expenses	Fee and Commission Expense	Net income/ expenses
1.Komercijalna banka AD Podgorica	59	5,033	(2,358)	(100)	2,634
2 Komercijalna banka AD Banja Luka	1,962	3,631	-	(300)	5,293
3. Kombank Invest	-	1,997	-	-	1,997
Total	2,021	10,661	(2,358)	(400)	9,924

Komercijalna Banka AD Beograd realized net negative exchange rate differences in the amount of RSD 7,288 thousand on the basis of transactions with its subsidiaries (in 2019: net negative exchange rate differences in the amount of RSD 10,321 thousand).

38. RELATED PARTY DISCLOSURES (continued)

38.2 Other related parties

Loans and receivables from related parties

In thousands of RSD

	2020			2019		
Loans and Receivables	Balance	Off balance	Total	Balance	Off balance	Total
Emi house	1	-	1	-	-	-
NLB Beograd	5	-	5	-	-	-
NLB d.d. Ljubljana	6,085	-	6,085	-	-	-
Beomox doo	19,968	122	20,090	23,483	1,220	24,703
PMC Inzinjering	844,093	-	844,093	1	-	1
Physical entities	166,700	16,989	183,689	176,512	17,227	193,739
Total	1,036,852	17,111	1,053,963	199,996	18,447	218,443

Liabilities	depsits	Borrowings	Total	Deposits	Borrowings	total
PMC Inzinjering	-	-	-	89	-	89
Beomox doo	7,344	-	7,344	7,950	-	7,950
Arhitektonski biro studio 3	389	-	389	100	-	100
JP Jugoimport	-	-	-	4,964	-	4,964
Reprezend DOO	12	-	12	12	-	12
Bolero ZR	64	-	64	19	-	19
Natural persons	363,582	-	363,582	216,065	-	216,065
Total	371,391	-	371,391	229,199	-	229,199

38. RELATED PARTY DISCLOSURES (continued)

38.2 Other related parties (continued)

Income and expenses from related parties

In thousands of RSD

	2020		
	Interest	Fees	Total
Income			
PMC Engineering	9,475	29	9,504
Architectural Bureau STUDIO 3	-	8	8
Beomox доо	551	318	869
NLB Beograd	40	864	904
NLB d.d Ljubljana	1	1,357	1,358
Emi house	-	63	63
Bolero ZR	-	19	19
Win Win Retail	-	416	416
WinWin Shop	-	242	242
Natural persons	6,985	746	7,731
Total income	17,052	4,062	21,114
Expenses			
NLB Beograd	-	(642)	(642)
NLB d.d. Ljubljana	(67)	(1,385)	(1,452)
Beomox doo	(7)	-	(7)
Natural persons	(1,262)	(25)	(1,287)
Total espenses	(1,336)	(2,052)	(3,388)
Net Income	15,716	2,010	17,726

Income and expenses from related parties

In thousands of RSD

	2019		
	Interest	Fees	Total
Income			
PMC Engineering	-	35	35
Architectural Bureau STUDIO 3	-	11	11
Beomox доо	482	318	800
ЈП Југоимпорт	-	4,847	4,847
Bolero ZR	-	18	18
Natural persons	7,667	844	8,511
Total income	8,149	6,073	14,222
Expenses			
Beomox doo	(4)	(1)	(5)
JP Jugoimport	(4)	-	(4)
Natural persons	(629)	(15)	(644)
Total expenses	(637)	(16)	(653)
Net income	7,512	6,057	13,569

38. RELATED PARTY DISCLOSURES (continued)

38.3 Gross and net remunerations paid to the members of the Bank's Executive Board, Board of Directors and Audit Committee were as follows:

		In thousands of RSD
	December 31, 2020	December 31, 2019
Gross remunerations Executive Board	96,547	63,403
Net remunerations Executive Board	82,553	52,981
Gross remunerations Board of Directors and Audit Committee	21,980	29,747
Net remunerations Board of Directors and Audit Committee	13,979	18,801

39. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Based on the obligation to reconcile the situation with the debtors as at December 31, 2020, the Bank forwarded 3,281 open item statements.

Based on the analysis of the regular Annual Count as at December 31, 2020, the Bank has inconsistent statements of outstanding items for eight clients with the stated reason for disputing.
Non-reconciled statements for two clients relate to clients who challenge the amount of receivables for given advances, receivables from issued invoices and rent receivables in the total amount of RSD 3,718 thousand (on which basis fourteen receivables were returned with unverified statements amounting to RSD 6,978 thousand).

Five clients dispute the amounts : receivables from domestic payments, fees for the activities of the issuing agent in RSD, in the amount of RSD 100 thousand.

In one case, the client partially disputed the amount relating to January overpayments in the amount of RSD 251 thousand.

The amount of allowances for disputed claims (and the amount of provisions for balance sheet items) is determined by the Bank's credit risk policy.

The Bank is in a continuos process of reconciliation of disputed items.

40. EVENTS AFTER THE REPORTING PERIOD

The new Board of Directors of the Bank held its first meeting on January 5, 2021 and appointed the President and Deputy Chairman of the Executive Board of the Bank who took over the management of the Bank on February 4, 2021, upon obtaining approvals from the competent institutions. At the first session, new members of the Audit Committee and the ALCO Committee were appointed.

An extraordinary session of the Bank's Assembly was held as at January 28, 2021 at which decisions were made on:

- amendments to the Bank's Statute
- dismissal of the current President of the Assembly of the Bank (in the future, the Chairman of the Assembly will be elected at the session itself)
- increase of the ownership share in Komercijalna banka Banja Luka to 100% and
- determining the remuneration of the members of the Board of Directors and other boards of the Bank

During January and February 2021, in accordance with the terms of the NBS Decision on temporary measures for banks to adequately manage credit risk in the conditions of COVID-19, dated December 15, 2020 the Bank has approved moratorium 3 for 1,648 clients with placements in the gross amount of RSD 4,506,368 thousand. Pursuant to the Decision of the NBS, days-past-due calculator for the client who submitted the request for moratorium 3 is stopped at the moment of submission of the request. The Bank reviewed each request for moratorium 3 individually and assessed whether significant increase in credit risk occured.

Apart from the events described in the previous paragraphs, there were no significant events after the balance sheet date that would have to be disclosed in the financial statements.

41. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in RSD on December 31, 2020 and 2019 for certain major currencies are:

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

In Belgrade, March 15, 2021

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

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД

Vlastimir Vuković
Chief Executive Officer

KOMERCIJALNA BANKA AD BEOGRAD

NLB GROUP

ANNUAL REPORT FOR 2020

March 2021

CONTENTS

1. KEY PERFORMANCE INDICATORS

PROFIT AND LOSS (in 000 RSD)	2020.	2019.	Index 20/19	2018.	2017.	2016.
Profit/loss before tax	4.192.846	8.268.685	50,7	8.121.073	7.187.250	-8.377.636
Pofit/loss after tax	2.928.761	8.955.759	32,7	8.145.182	8.117.368	-8.063.183
Net interest income	12.069.290	12.605.384	95,7	12.834.638	12.446.197	13.462.734
Net fee income	4.875.408	5.328.996	91,5	5.210.149	5.082.226	4.817.314
*Operating expenses**	11.510.471	11.064.609	104,0	10.473.783	10.833.081	11.086.858
Net income/expenses from indirect write-off of lending and provisions	-1.072.032	2.425.931	-	9.493	17.883	-14.907.539

** Note: Operating expenses show the cost of salaries, tangible and intangible operating expenses.*

BALANCE SHEET (in 000 RSD)	2020.	2019.	Index 20/19	2018.	2017.	2016.
VBALANCE-SHEET ASSETS	459.427.723	432.380.443	106,3	401.165.980	369.183.538	400.017.469
RETAIL						
*Loans ***	108.585.889	99.057.214	109,6	92.033.605	81.712.222	75.522.465
*Deposits****	309.268.562	280.484.488	110,3	260.296.411	241.210.420	231.312.395
CORPORATE						
Loans	78.833.152	81.504.403	96,7	75.264.373	71.725.704	74.083.897
Deposits	47.765.467	47.879.400	99,8	49.879.580	41.371.592	78.300.568
Securities	153.776.323	138.469.551	111,1	133.177.598	117.288.767	136.366.773

**** Note: The item loans does not include other lending and receivables, the item deposits does not include other liabilities and funds received through credit lines.*
**** Note: At the end of 2017 RSD 11.2bn worth of deposits of microclients was transferred from corporate into retail due to which the data has been adjusted compared to the Annual Report for 2017.*

RATIOS	2020.	2019.	Index 20/19	2018.	2017.	2016.
RATIO LOANS/DEPOSITS						
Gross loans/deposits	53,4%	57,7%	92,5	58,4%	61,3%	58,7%
Net loans/deposits	51,0%	54,9%	92,9	54,8%	56,1%	50,7%
EQUITY (in 000 RSD)	74.086.863	75.852.173	97,7	67.560.513	63.260.055	55.424.302
Capital adequacy	32,50%	30,83%	105,4	29,18%	27,89%	26,97%
Number of employees	2.669	2.744	97,3	2.766	2.806	2.858
PROFITABILITY PARAMETERS						
ROA	0,93%	2,00%	46,4	2,13%	1,89%	-2,05%
ROA - on total equity	5,59%	11,71%	47,7	12,57%	11,91%	-13,86%
Net interest margin on total assets	2,7%	3,0%	87,6	3,4%	3,3%	3,3%
Cost/income ratio	67,9%	61,7%	110,1	58,0%	61,8%	60,7%
Assets per employee (in 000 EUR)	1.464	1.340	109,3	1.227	1.111	1.134
Loans per employee (in 000 EUR)	611	575	106,2	535	487	454
Deposits per employee (in 000 EUR)	1.197	1.047	114,3	976	868	896

During 2020 operation of economic entities was carried out in the environment of the Covid-19 pandemic. On the territory of the Republic of Serbia, in the period from mid March until early May 2020, a state of emergency was declared with the aim of mitigating the consequences of the Covid-19 virus pandemic, which significantly directed the functioning of social and economic life. Key macroeconomic indicators realized positive values given the circumstances. It is expected that the change of the gross domestic product (GDP) at the end of 2020 will be -1,0%[1], foreign direct investments in the first ten months reached EUR 2bn[2],there was a slight decrease in the national budget (January – November 2020), marginal increase in the share of public debt in GDP, dinar appreciation against the EUR and a single digit unemployment rate. The end of business 2019 and the start of 2020 were met by the Serbian economy with high rates of economic growth, low inflation, balanced fiscal position, decreased share of public debt in GDP and a recovery at the labor market. Such starting position has helped the Serbian economy to readily respond to the current challenges, particularly those that came as the result of the Covid-19 pandemic[3].

In the previous year, which was marked by operation in the environment of the Covid-19 pandemic, as part of the activities aimed at preserving the overall stability of the banking sector, the National Bank of Serbia (NBS) passed several decisions, among which the following particularly stand out: Decision on temporary measures for preservation of stability of the financial system, Decision on temporary measures for banks for the purpose of mitigating the consequences of the Covid-19 pandemic, with the aim of preserving the stability of the financial system, Decision on temporary measures for banks with the aim of facilitating the access of private individuals to financing, Decision on temporary measures for banks with the aim of adequate management of credit risk in the environment of Covid-19.

Bearing in mind that the financial position of a large number of borrowers in 2020, as the result of the adverse effects caused by the Covid-19 pandemic, was made significantly difficult, the National Bank of Serbia allowed the borrowers who wished to do so, to pause the repayment of due liabilities i.e. the borrowers could ask for a delay in repayment of due liabilities. These measures, as well as the measures aimed at adequate management of credit risk additionally contributed to maintaining the stability of the financial system. On the basis of the decision made, during 2020, the National Bank of Serbia implemented three moratoria for repayment of liabilities to banks and the issuers of financial leasing. Firstly, in March 2020 a moratorium was allowed for all the borrowers who wished to use it and involved a delay in repayment of liabilities not shorter than 90 days i.e. not shorter than the duration of the emergency situation that was introduced due to the pandemic. In this period the borrower was not obliged to repay their liabilities for loans or leasing. The second moratorium in July 2020 allowed the borrowers an additional delay in repayment of liabilities to the banks due in the period from 01.08.2020 to 30.09.2020 including, as well as a delay in repayment of liabilities due in July 2020 which the borrower did not settle. In December 2020 NBS passed also the third moratorium that specified an obligation on banks to allow to the borrowers, who are unable to settle their liabilities to the bank, at the borrower's request, a relief for the repayment of liabilities. National Bank of Serbia assessed that particularly unemployed persons, as well as borrowers whose average net monthly income is below certain set level in the past three months needed a delay in repayment.

"Instant payment system" (IPS), which was introduced by the NBS, apart from other payment systems, with the aim of more efficient and quicker payment transactions, starting from October 2018, continued to operate successfully also during 2020 which is attested by the increase in the number (75.5%) and the value of performed transactions (91.9%)[4]. NBS IPS system operates 24 hours a day, 7 days a week, 365 days a year (24/7/365).

Capital adequacy ratio of the banking sector was high and stable during the first three quarters of 2020 (22.7-22.4%[5]).

Interest rates on newly approved corporate and retail loans were on a stable and low level despite great problems in the society due to the Covid-19 pandemic (3.3% corporate; 8.6% retail, November 2020[6]).

1 NBS, Macroeconomic Trends in Serbia, December 2020.
2 NBS, Balance of Payments of the Republic of Serbia, January-October 2020.
3 NBS, Macroeconomic Trends in Serbia, July, september 2020.
4 NBS, indicators of operation of IPS NBS, January, December 2020
5 NBS, Table 1.1. Key Macroprudentail Indicators of the Republic of Serbia
6 NBS, Macroeconomic Trends in Serbia, January 2021.

Inflationary pressures, which were mild during the previous year, resulted in NBS additionally relaxing the monetary policy by reducing the key policy rate to the lowest level of 1.00% in early December 2020.

After Serbia entered into the international capital market, with the first issue of Eurobonds denominated in EUR, first data about the risk premium EMBI for Serbia on the basis of debt in EUR were released. During March and April 2020, due to the Covid-19 pandemic, the risk premium of Serbia for the debt in EUR increased. At the start of May 2020 Serbian risk premium reached the maximum value of 344 bp[7], and after that it started to decrease. Decrease in Serbian risk premium was contributed by the economic policy measures as a response to the health and economic crisis. During the third quarter 2020 the risk premium for Serbia for the debt in EUR decreased by 32 bp and amounted to 225 bp[8] at the end of September 2020.

During the previous year as well, the Bank was in the group of systemically significant banks, with a significant share in the assets and the capital of the banking sector. At the end of the third quarter 2020 the Bank's share in the assets of the banking sector was 10.2% while in terms of the volume of total capital its share is 10.4%. The Bank still stands out in the sector in terms of the volume of retail foreign currency savings. At the end of 2020 retail savings deposits amounted to EUR 1,819.9 million.

The business year 2020 was marked by the activities on completion of the Bank's privatization process. In February 2020 a contract was signed between the Ministry of Finance of the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana, Slovenia for the purchase of 83.23% of ordinary shares of Komercijalna banka a.d Beograd. After that, from March 2020 the closing process began, the process of acquiring the Bank, which was successfully completed on December 30th, 2020.

Apart from the activities related to the Bank's privatization, in 2020 the bank's management had, as their key goals, safe, stable and profitable operation. These goals were realized to the extent allowed by the situation with the Covid-19. The bank realized an increase in balance-sheet assets and operating profit with high liquidity and capital adequacy.

The bank's total capital, as one of the key indicators of operational safety, decreased marginally in 2020 and was influenced by the realized distribution of profit from 2019 into dividends to holders of ordinary and preferred shares. At the end of 2020 the Bank had a total capital of RSD 74,086.9 million or EUR 630.1 million. At the end of 2020 the Bank's capital adequacy ratio was 32.50%.

After the changes made in the previous years, the bank provided personal banking services through a network of 203 branches grouped in six business centers and the Kosovska Mitrovica branch. Work with legal entities was carried out through three divisions for SMEs and the Corporate Division – Large Clients.

The society we live and work in has been based on the Internet and electronic business, for many years now, which resulted in the Bank implementing modern technologies in its operation. Being fully aware of these changes and needs, the Bank set itself, as one of the significant targets, also the continuation of digitalization of operation during 2020 as well. The Bank's digital banking services showed their full effect and significance for business exactly during 2020 and the extraordinary conditions for operation not remembered so far. The Bank already provides, in line with the highest standards, almost all digital banking services to its clients in the same manner as these services are available to the users in the most developed countries of the world. The bank also implements the process of internal digitalization for improvement of the existing business processes i.e. the increase in efficiency and quality of work.

During 2020, in the environment of the Covid-19 pandemic, the Bank undertook all the necessary measures for quality management of operational risks. Measures for managing risks that the bank implemented over the past years contributed to a successful completion of 2020 as well. The greatest operational risk for the Bank and the banking sector is still the credit risk. As the result of the established risk management system and implementation of the NBS regulations, during 2020 as well, the bank managed to maintain the NPL ratio at an acceptable level. At the end of 2020 the NPL ratio was 7.8%.

The Bank finished the year 2020 with a profit before tax of RSD 4,192.8 million. Profit realized in the past four years and high value of the capital

7 NBS, Report on inflation, November 2020.

8 NBS, Report on inflation, November 2020

adequacy ratio enabled the bank to allocate an additional amount of reserves from profit. At the end of 2020 the reserves were RSD 3,341.2 million higher than at the end of 2019.

Bank's financial targets (in%)	2020. realized	2020. plan
Growth of assets	6,3	3,3
Profit before tax (RSD million)	4.193	5.217
ROA	0,9	1,2
ROE - total capital	5,6	6,9
Interest margin (net interest income / average assets)	2,7	2,8
Cost/inocme ratio	67,9	65,7

2. MACROECONOMIC OPERATING CONDITIONS

According to the report of the International Monetary Fund (IMF), published in October 2020, the projection of global trends in world economy for 2020 is -4.4%[9], which is 0.8 pp above the previous assessment from June 2020. For countries from the group of developed economies, projected growth for 2020 is –5.8%[10], which is 2.3 pp higher than the estimate from June 2020. For the US economy a decline of 4.3% in 2020 is first expected and then an increase of 3.1% in 2021[11]. A more significant decrease in economic activity was estimated for the countries of the Eurozone and amounts to -8.3% in 2020 while a growth of 5.2% was estimated in 2021[12]. The economy of Japan will probably decrease by -5.3% at the end of 2020, while IMF predicts a growth of 2.3% in 2021[13]. In the segment of "growing markets and developing countries" it is predicted that the economic activity will decrease -3.3% in 2020 and grow at 6.0% in 2021. Estimates of economic growth for China are much better than for any other country and it is estimated that it will grow at 1.9% in 2020 and 8.2% in 2021[14]. According to the IMF report for Serbia, it is estimated that the GDP will decrease in 2020 by -2.5%, while the estimate for 2021 is much more optimistic and amounts to 5.5%.[15]

In international financial market during 2020 also, there was a diversity of monetary policies of the leading central banks, the Federal Reserve (the Fed, USA), European Central Bank (ECB), Swiss National Bank (SNB). In March 2020 Federal Reserve decrease the key-policy rate by 1.0 pp (0.00 – 0.25%), in September, for the last time, the European Central bank decreased the key-policy rate by 0.10 pp (-0.5%), in early 2020 the bank of England decreased its interest rate by 0.15 pp (0.10%). In 2020 the Swiss National Bank kept the key-policy rate at -0.75%.[16]

In 2020 the European Central Bank continued with net purchase within the assets purchase program in the amount of EUR 20 bn a month, that will continue until the interest rates are increased and with the additional purchase of assets, within this program, in the total amount of EUR 120 bn by the end of 2020[17]. Also, the ECB introduced during March 2020 a temporary assets purchase program which is expected to be used up to the full extent of EUR 1,350 bn and will last until mid-2021.

According to the ECB estimate from December 2020, in the baseline scenario, the annual inflation in the Eurozone, measured by the harmonized consumer price index (HIPC standard) will increase from 0.2% in 2020 to 1.0% in 2021 and then further to 1.1% in 2022.[18] Real GDP of decrease of the Eurozone, after the decrease of 15.0% in the first half of 2020, increased by 12.5% in the third quarter 2020 which is significantly higher than the initial expectations[19]. It is expected that the strengthening of measures for prevention of the spread of Covid-19, implemented at the end of the year, will cause a repeat decrease in GDP in the fourth quarter of 2020. A better situation is not expected for the first quarter of 2021 either[20]. It is expected that the GDP will return to the precrisis level (GDP from 2019) by mid-2022. According to the ECB projections from December 2020, the expected GDP growth rate is -7.3% in 2020, 3.9% in 2021 and 4.2% in 2022[21].

In the commodities market, during December 2020, the rise in price of crude oil continued. The rise in oil price was affected by the initiated vaccination program in the USA, the investors' readiness to assume risk after the first vaccine against corona virus was approved, decreased supplies of crude oil in the USA, the news that India was increasing the import of oil, as well as expectations that the Fed's policy will continue to pressure the value of the dollar[22]. The price of Brent type oil, at the end of 2020 (14-18.12.2020) ranged from USD 50.02 to USD 52.00 for the barrel[23].

9 IMF, World Economic Outlook, october 2020
10 IMF, World Economic Outlook, october 2020
11 IMF, World Economic Outlook, october 2020
12 IMF, World Economic Outlook, october 2020
13 IMF, World Economic Outlook, october 2020
14 IMF, World Economic Outlook, october 2020
15 IMF, World Economic Outlook, october 2020
16 NBS,Overview of events in the world financial market, 14-18. December.2020
17 NBS, Report on inflation, November 2020.
18 ECB, Eurosystem staff macroeconomic projections for the euro area, December 2020, tab 2
19 ECB, Eurosystem staff macroeconomic projections for the euro area, December 2020
20 ECB, Eurosystem staff macroeconomic projections for the euro area, December 2020
21 ECB, Eurosystem staff macroeconomic projections for the euro area, December 2020, tab 1
22 NBS, Overview of events in the world financial market, 14-18.12.2020.
23 NBS, Overview of events in the world financial market, 14-18.12.2020.

In the Republic of Serbia, after the recovery of many economic sectors at the end of the previous year, the preliminary estimate of the National Statistics office was a decrease in GDP for 2020 of 1.1%. The projected trend in GDP for 2021 was kept at 6.0%[24]. Increase in GDP in 2022 and 2023 should remain at 4.0%[25]. Year-on-year inflation is still under control and ranges at about 2.0% on average in the past seven years. The year-over-year inflation rate at the end of December 2020 was 1.3%[26]. In accordance with the NBS memorandum, the targeted rate of total inflation for the period January 2021 to December 2023 will range within the targeted corridor 3.0%±1.5pp. Labor Force Survey of the National Statistics Office shows that the unemployment rate for the third quarter 2020 was 9.0%[27]. The total value of foreign trade in the period January – November 2020 was EUR 36.3 bn[28]. Net inflow of foreign direct investments (FDI), for the first eleven months 2020, was EUR 2.2 bn[29]. Central government's public debt, at the end of November 2020, was EUR 26.7 bn, which is 56.8% of GDP[30].

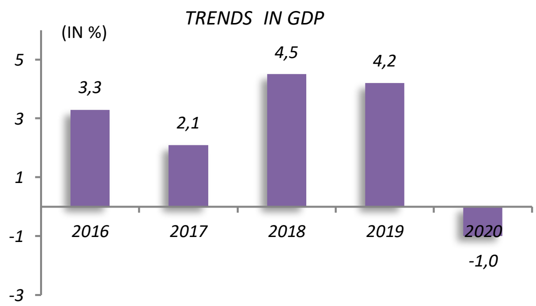
Serbian risk premium measured by EMBI index (index of developing countries' bonds) for the debt in EUR decreased during the third quarter 2020 and amounted at the end of September 225 bp and decreased additionally by 17 bp during October 2020[31].

During 2020, at Belgrade Stock Exchange, a total turnover of RSD 48.8 bn or EUR 414.6 million was realized, which is a decrease compared to 2019 (-46.9%).

A total of 18,098 transactions (-41.8%) was realized and market capitalization of RSD 523.4 bn was realized. Belex line index finished 2020 at 1,566.03 (-9.31%) while the Belex 15 index reached 748.61 (-6.62%)[32].

Trends in GDP

In 2019 there was an economic growth of 4.2%[33] which is marginally less than in 2018 when it reached record high of the previous decade.
Economic activity continued its positive trends also during the first quarter of 2020 until the global pandemic of Covid-19 virus. In the first quarter of 2020 the rise in GDP was as high as 5.2%[34] year-over-year. Already in the second quarter 2020 the decrease in GDP was recorded by 6.3%[35]. In the third quarter 2020 the decrease in DP was reduced and amounted to -1.4%[36] with the largest part of the economic recovery process was completed. The key positive contribution to the trends in GDP, from the manufacturing side, came from the industrial production that recovered from the initial shock. A positive contribution to the economic activity came from agriculture thanks to a good season. The services sector achieved a slight recovery, but it has a negative effect on GDP as well as the construction sector.[37] Estimated trend of the GDP for the fourth quarter is -1.6% [38] y-o-y.
Industrial production in November 2020 realized a y-o-y decrease of 1.4% and in the period January – November a total increase in the physical volume of 0.1% was achieved[39]. In retail trade the turnover of goods in the first eleven months of 2020 increased y-o-y by 4.8% (in current prices)[40]. In the period January – November 2020, due to the pandemic and restrictive measures, there was a decrease in the number of foreign tourist nights of 49.4% y-o-y[41].

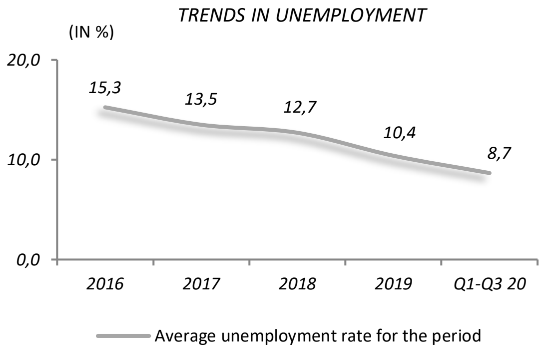


Employment / unemployment

During the first three quarters of 2020 there were no significant oscillations despite the measures for stopping the pandemic. According to the data from the Labor Force Survey, at the end of the third quarter 2020 the unemployment rate remained single digit and was 9.0% and was marginally less compared to 2019, when it was 9.5%.[42] Employment rate for the same period was 49.9%. In the third quarter 2020 the number of employed persons decreased marginally by 2,100 and the

24 NBS, Macroeconomic Trends in Serbia, January 2021.
25 MFIN, Fiscal strategy for 2021 with projections for 2022 and 2023
26 NSO, Press release, 12.1.2021.
27 NSO, Labor force survey, third quarter 2020.
28 MFIN, Current macroeconomic trends, January 2021.
29 NBS, Macroeconomic Trends in Serbia, January 2021.
30 MFIN, Table – public debt of the Republic of Serbia, January 021.
31 NBS, Report on inflation,November 2020.
32 Belgrade Stock Exchange, annual statistics, 2020.
33 NBS, Macroeconomic Trends in Serbia, December 2020.
34 NBS, Macroeconomic Trends in Serbia, January 2020.
35 NBS, Basic macroeconomic indicators, December 2020.
36 NBS, Macroeconomic trends, December 2020.
37 MFIN, Current macroeconomic trends, January 2021.
38 NBS, Macroeconomic Trends in Serbia, January 2021.
39 MFIN, Current macroeconomic trends, January 2021.
40 MFIN, Current macroeconomic trends, January 2021.
41 MFIN, Current macroeconomic trends, January 2021.
42 NSO, Labor Force Survey, thrid quarter 2020.

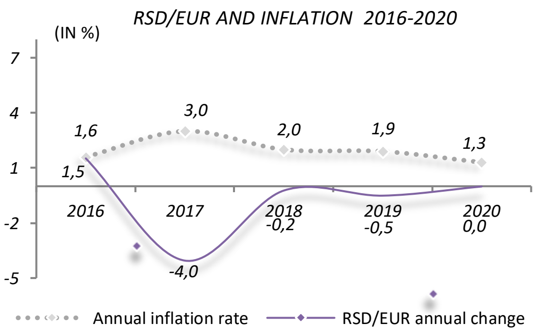
number of unemployed persons is lower by 16,300 compared to the same period 2019[43]. Within total employed persons there was a decrease in the number of informally employed by 42,900 and an increase in the number of formally employed by 40,700[44] y-o-y. Average net salary in the period January-October 2020 was RSD 59,370 (EUR 511) and increased by 9.4% y-o-y[45].



Source: National Statistics Office, Labor Force Survey

Inflation

Y-o-y inflation at the end of 2019 was 1.9%. In early 2020 the y-o-y inflation rate was 2.0% in January and in December it reached 1.3% y-o-y [46]. Due to low inflationary pressure, stable trends in the FX market in the period January – December the inflation rate was kept low. The greatest effect on the trends in inflation in 2020 came from the trends in the price of vegetables, fruit and oil derivatives[47]. The effect on the increase in inflation came from the price of services, processed food and the price of cigarettes. The greatest effect on the decrease in inflation came from the decrease in the price of oil derivatives. According to the NBS projection, the y-o-y inflation should gradually come close to the central value of the target of 3.0% in 2022[48].

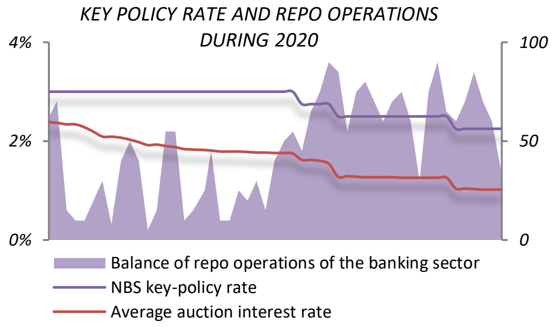


Key policy rate

In early December the National Bank of Serbia additionally reduced the key-policy interest rate to 1.00% after three reductions during the year (in March, April and June). When making such a decision, the National bank of Serbia had in mind the need to provide additional assistance to the local economy, repeat deterioration of the health situation and the slow down of the economic recovery of the European Union, as the local economy's main partner. Responsible economic policy created additional space for the monetary policy and public finances to respond to the current crisis without the effect on the achieved low inflation rate and other macroeconomic indicators. According to the data of the National Statistics Office, the y-o-y inflation in December 2020 was 1.3%, while the expected trends in the GDP rate are more favorable and, according to the preliminary assessment, amount to -1.1% y-o-y. With the additional decrease in the key-policy rate, in the environment of low and stable inflation, the National bank of Serbia gave additional boost to the growth of lending activity in retail and corporate segment. Total loans of the banking sector recorded a y-o-y growth of 11.7% in November 2020.[49]

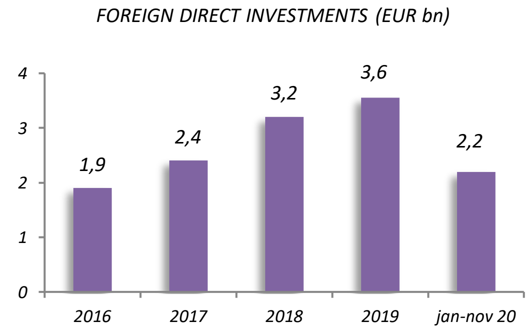
Average weighted repo rate at the end of 2020 was 0.10%, while at the end of 2019 it was 1.02%[50]. The volume of repo transactions of NBS and commercial banks during 2020 ranged from minimum RSD 0.2bn to maximum RSD 110.0 bn and finished at the end of the year at RSD 14.6 bn.

43 NSO, Labor Force Survey, thrid quarter 2020.
44 NSO, Labor Force Survey, thrid quarter 2020.
45 NBS, Macroeconomic Trends in Serbia, January 2021.
46 NSO, Press release, Consumer price index, December 2020.
47 NBS, Macroeconomic Trends in Serbia, January 2021.
48 NBS, Macroeconomic Trends in Serbia, January 2021.
49 NBS, Macroeconomic Trends in Serbia, January 2021.
50 NBS, open market operations



Foreign direct investments

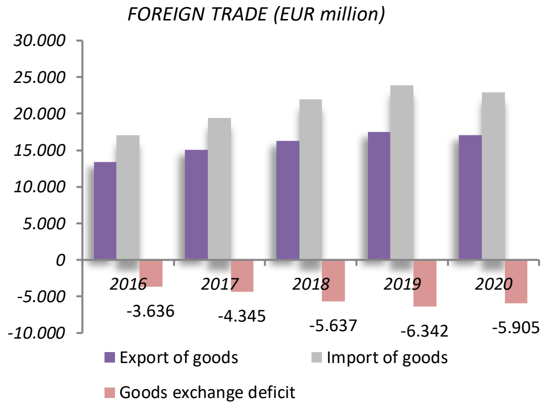
Foreign direct investments (FDI), during 2019 reached an amount of EUR 3.6 bn[51]. The volume of net FDIs, for the eleven months of 2020 reached EUR 2.2. bn[52]. The bulk of FDIs was focused on manufacturing industry, particularly to automobile, metal, food processing and automobile tire industry.



These investments contributed, among other, to further increase in employment, increase in production and export of the manufacturing industry. The total current account deficit of the balance of payments of the Republic for 2019 was EUR 3.2bn and was fully covered by FDIs. The share of balance of payments deficit in GDP reached 6.9%. In the first ten months of 2020 the current account deficit was EUR 1.7bn[53] and was fully covered by FDIs.

Foreign trade

Total foreign trade of the Republic of Serbia, in the period January–December 2020, was EUR 40.0 bn[54]. Compared to the same period 2019 (EUR 41.4 bn) this volume of exchange has a decrease of only -3.4%. Export of goods, for the twelve months of 2020, reached EUR 17.1 bn, while the import of goods amounted to EUR 23.0 bn. Foreign trade deficit of goods exchange amounted to EUR 5.9 bn which is a decrease of -6.8%[55] y-o-y.



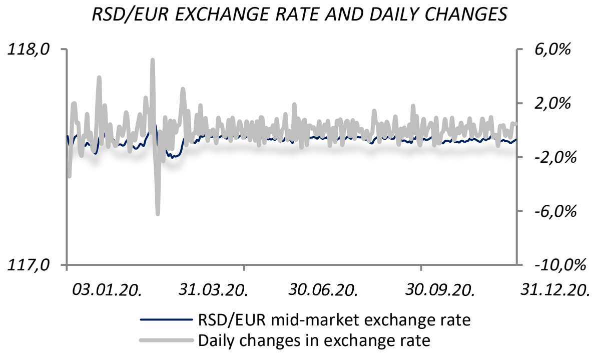
In the period January–November 2020 the most significant export products were electrical machines, devices and apparatuses with the share of 12.3%, then fruit and vegetables with 5.1[56]. A significant portion of the exported goods were grains and grain products, propulsion machines and rubber products[57].
The most significant imported products are electric machines, medical and pharmaceutical products, industrial machines for general use, road vehicles, oil and oil derivatives[58]. Serbia's main foreign trade partners are from the EU are Italy and Germany in 2020 also, then China and Russia[59].

EUR/RSD exchange rate

EUR/RSD exchange rate in 2020 was 117.58 and changed minimally compared to the exchange rate from the end of 2019 (117.59). During 2020 the EUR/RSD exchange rate ranged between 117.50 and 117.59 to the EUR. The trends in the dinar exchange rate were under the influence of the significantly changed macroeconomic indicators that are better than in the neighboring countries, maintained credit rating (S&P, Fitch[60]), high inflow of foreign direct investments in the period January–November 2020. During 2020 the dinar remained unchanged to the euro, while it appreciated against the dollar by 9.7%. During 2020 as well the National Bank of Serbia intervened in the interbank foreign exchange market by

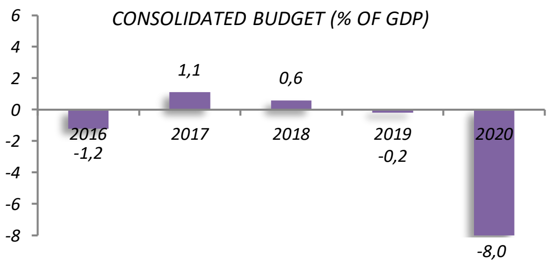
51 MFIN, Tbable 1, Key indicators of macroeconomic trands, 4.2.2021.
52 NBS, Macroeconomic Trends in Serbia, January 2021.
53 MFIN, Table 1, Key indicators of macroeconomic trends, 4.1. 2021.
54 MFIN, Table 1, Key indicators of macroeconomic trends, 4.1. 2021.
55 MFIN, Table 1, Key macroeconomic indicators, 4.2. 2021.
56 MFIN, Current macroeconomic trends, January 2021.
57 MFIN, Current macroeconomic trends, January 2021.
58 MFIN, Current macroeconomic trends, January 2021.
59 MFIN, Current macroeconomic trends, January 2021.
60 NBS, Macroeconomic Trends in Serbia, January 2021.

purchasing and selling foreign currency and in that manner prevented greater daily oscillations in the value of the dinar.
Gross FX reserves of the NBS, at the end of December 2020, reached the amount of EUR 13.5 bn and increased compared to December 2019 by EUR 0.1 bn[61].



Budget deficit/surplus

During 2020, on the general government level, there was a total fiscal deficit in the amount of RSD 442.8 bn[62]. Decrease in revenue in the observed period is the result of negative effects of the Corona virus pandemic, while the increase in expenses is the result of granting significant funds to the economy and the citizens in order to overcome the adverse effects of the crisis.



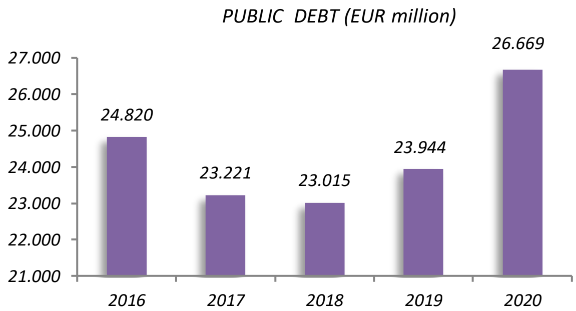
Source: MFIN (consolidated fiscal result)

During 2020 there was a deficit in the budget of the Republic of RSD 459.1 bn[63]. In this period, revenue of RSD 1,257.4 bn was collected and expenses of RSD 1,716.5 bn were realized. In December 2020 a budget deficit of RSD 84.3 bn was realized. In December RSD 118.0 bn worth of budget revenue was collected and the bulk of this is tax revenues (RSD 102.2 bn)[64]. Tax revenues relate to the payment of VAT and excises into the budget. Budget expenses in December were RSD 202.3 bn.[65] More favorable fiscal results realized in the past three years, before the occurrence of the Covid-19 pandemic are the result of fiscal consolidation of the budget expenses, as well as an increase in revenue due to the growth in GDP and better tax collection.

Public debt

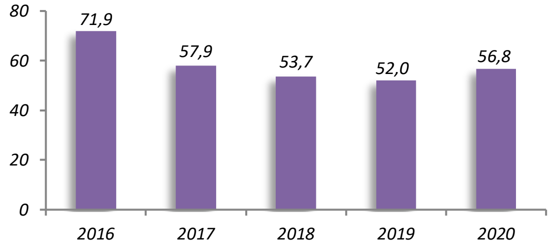
Public debt of the Republic of Serbia (central government level), according to the data available for the end of 2020, was EUR 26.7 bn[66] which accounts for 56.8% GDP. Compared to the same period in 2019, according to the data available from the Ministry of Finance, this amount of public debt is an increase of EUR 2.7 bn. In a situation of a corona virus pandemic and undertaken economic measures by the Government with the aim of assisting the economy and the citizens, the share of public debt in GDP increased y-o-y (56.8%). According to the Budget Revision for 2020, the public debt will remain by the end of 2020 below 60% GDP and as of 2021 it will return to the decreasing trend[67].

As for the currency structure of the public debt of the Republic of Serbia, about 50% is in euros, 13% in dollars (December 2020). In terms of the interest rate structure, about 86% of public debt of the Republic of Serbia is at fixed interest rates[68].



61 NBS, Table – key monetary aggregates, 25. January 2021
62 MFIN, Press Release forDecember 2020.
63 MFIN, Press Release forDecember 2020.
64 MFIN, Press Release forDecember 2020.
65 MFIN, Press Release forDecember 2020.
66 MFIN, Table-public debt of the Republic of Serbia, February 2020.
67 NBS, Macroeconomic Trends in Serbia, January 2021.
68 Public Debt Administration of RS, Monthly report, December 2020.

RS PUBLIC DEBT (% of GDP)



According to the data from the Public Debt Administration of the Republic of Serbia, the balance of debt of government securities at the end of December 2020 was RSD 947.7 bn and EUR 2.6 bn[69]. During 2020 two issues of government Eurobonds denominated in EUR and USD were released. In May 2020 a series Serbia 3 was issued, denominated in EUR, in the volume of EUR 2.0 bn, to 7 years, at the enforcement rate of 3.375%[70]. In December 2020 a series Serbia 1 was issued, denominated in USD, at the volume of USD 1.2 bn, to 10 years, at the enforcement rate of 2.350%[71] and the bulk of which will be used for early repurchase of Eurobonds from 2011 that had a significantly higher price for the public debt (7.500%).

External debt

According to NBS data, at the end of September 2020, the total external debt of the public and private sector was EUR 30.7[72] bn and, compared to the same period 2019, it increased by EUR 2.5 bn. In the observed period, the external debt of the private sector increased by EUR 1.3 bn, while the external debt of the public sector increased by EUR 1.2 bn[73]. External solvency indicator, represented as the ratio of external debt to the value of exported goods and services, at the end of September 2020 slightly deteriorated and amounts to 139.6%, (start of year 121.0%)[74].

69 RS Public Debt Administration, Monthly report, December 2020.
70 RS Public Debt Administration, Monthly report, December 2020.
71 RS Public Debt Administration, Monthly report, December 2020.
72 NBS, RS external debt to the debtors as of December 30th, 2020.
73 NBS, RS external debt to the debtors as of December 30th, 2020.
74 NBS, Indicators of Serbia's external position as of January 11th, 2021.

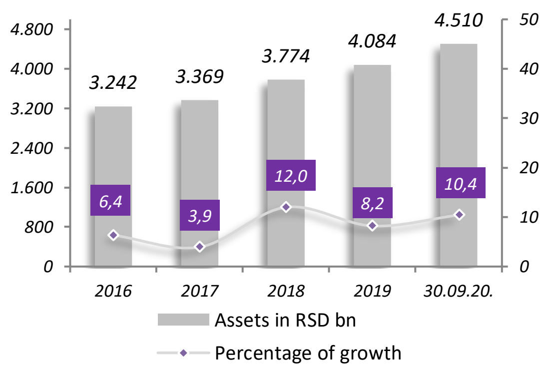
3. BANKING SECTOR OF THE REPUBLIC OF SERBIA AND THE BANK'S FINANCIAL POSITION

3.1. Banking sector

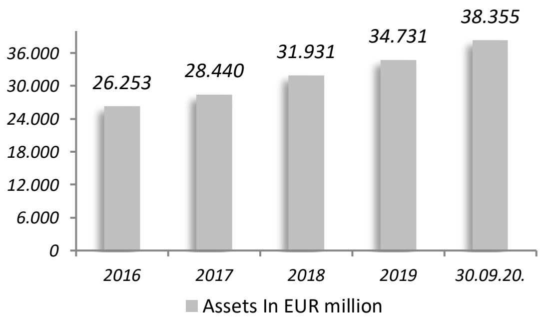
At the end of November 2020 the banking sector of the Republic of Serbia is made up of a total of 26 banks with 22,890 employees[75]. Total assets reached an amount of RSD 4,509.8 bn and total equity is RSD 717.0 bn, at the end of September 2020. In terms of balance-sheet assets, ten largest banks account for 80.0% of the total assets of the banking sector.

In the first nine months of 2020 the balance-sheet assets of the banking sector increased 10.4% from the end of 2019, while total capital increased 1.6%.

TRENDS IN THE BANKING SECTOR

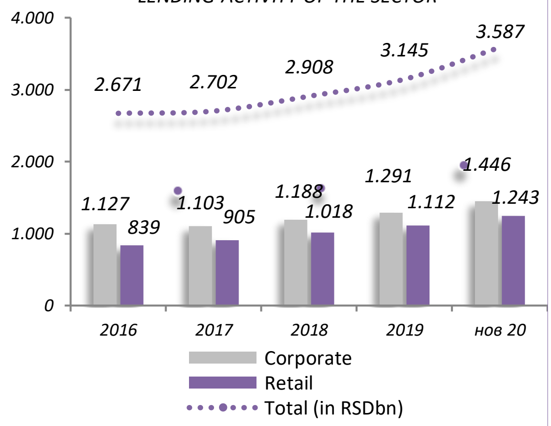


TRENDS IN THE BANKING SECTOR



During the first three quarters of 2020 also the decreasing trend in interest rates on newly granted dinar corporate and retail loans continued. Interest rate on dinar corporate loans in October 2020 was 3.4% and interest rate on retail loans decreased to a new low of 8.6%[76]. Despite the Covid-19 pandemic, the lending activity of the sector continued to grow, particularly in the first half of 2020. Total local loans recorded a growth in October 2020 of 12.1%[77] y-o-y and this trend is expected to continue in the future, as the result of relaxing of the monetary policy. Even during the analyzed period of 2020, as was the case in 2019, the banking sector had significant surplus liquidity at disposal, given the liquidity ratio of 2.1[78] at the end of October 2020. Commercial banks invested their surplus liquidity mostly into government securities and repo operations of the NBS. At the end of September 2020 the balance of the banks' investments in repo transactions was RSD 30.0[79]. Share of securities was 16.8% and cash and funds with the Central Bank 16.1% of the banking sector's assets (as of September 30th, 2020).

LENDING ACTIVITY OF THE SECTOR

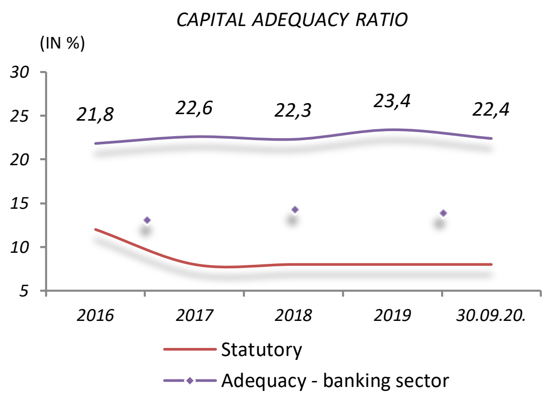


Share of gross NPLs in total gross loans, at the end of September 2020, was 3.4%, while at the end of December 2019 it was 4.1%[80]. NPL impairments cover 62.4%[81] of gross NPLs at the end of September 2020.

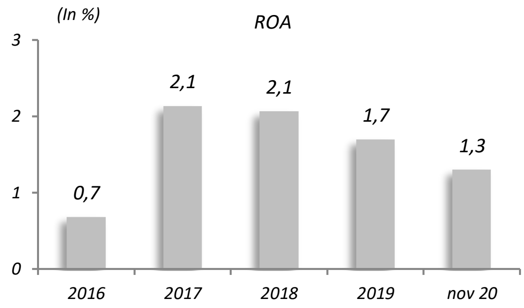
75 NBS, Macroeconomic Trends in Serbia, January 2021., balance at the end of November 2020.
76 NBS, Macroeconomic Trends in Serbia, December 2020.
77 NBS, Macroeconomic Trends in Serbia, December 2020.
78 NBS, Macroeconomic Trends in Serbia, December 2020.
79 NBS, Overview of auction trade in securiteis used by NBS to perform operations in the open market for 2020.
80 NBS, Key macroprudential indicators of the Republic of Serbia, Table 1.1.
81 NBS, Key macroprudential indicators of the Republic of Serbia, Table 1.1.

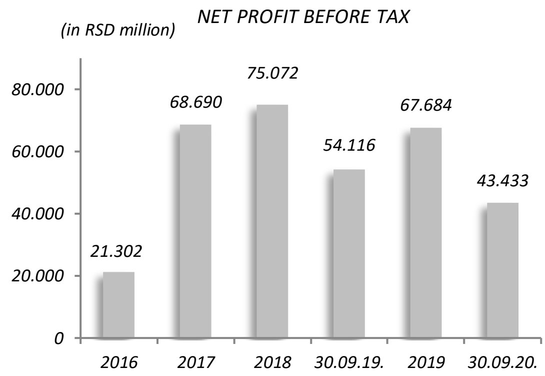
Even during the observed year 2020 and the problems to preserve jobs, loan repayments and other difficulties, *retail FX savings* had a stable growth trend. At the end of November 2020 total retail FX savings reached EUR 10.9 bn[82], which is an increase from the end of 2019 of 4.5%. Total retail savings, in the same period, reached EUR 11.7[83] bn, which is an increase of 5.2% compared to the end of 2019.

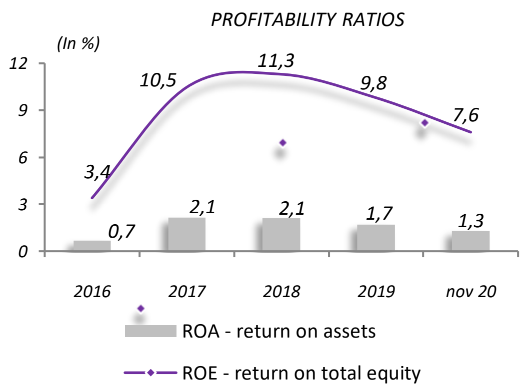
Average value of the *capital adequacy ratio* of the banking sector, as of September 30th, 2020 was 22.4%[84]. Compared to the prescribed minimum ratio of 8.0% the realized value of 22.4% attests to adequate capitalization of the banking sector. At the end of September 2020 share capital of the banking sector was RSD 390.4 bn.

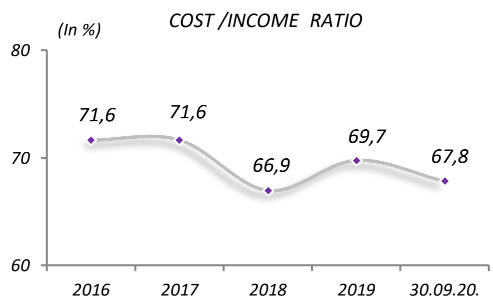


At the end of November 2020 the credit indebtedness of commercial banks to entities abroad (short-term and long-term loans) was RSD 279.3 bn and increased 17.4% year-over-year[85]. During the first three quarters of 2020 the banking sector recorded a y-o-y decrease in profitability. At the end of the third quarter 2020 a positive net financial result was realized, before tax, in the amount of RSD 43.4 bn. In the observed period 19 banks operated positively with a total profit of RSD 44.6 bn, while 7 operated with a total loss of RSD 1.2 bn.







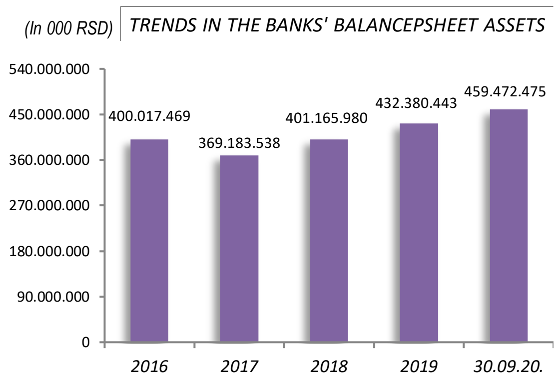


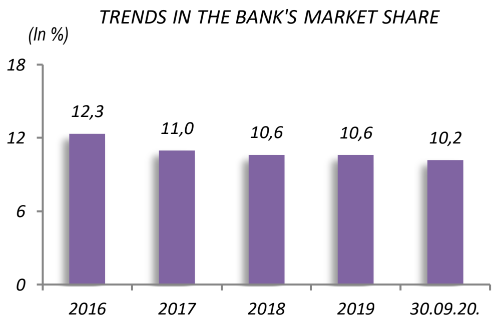
Cost/Income ratio is on the decrease, after an increase during 2019 and was 67.8% (as at 30.09.2020).

82 NBS, Table 1.1.20.-Retail savings in banks, 23.12.2020.
83 NBS, Table 1.1.20.- Retail savings in banks, 23.12.2020.
84 NBS, Macroeconomic Trends in Serbia, December 2020.
85 NBS, Banks foreign debts, Table 2.5., 23.12.2020.

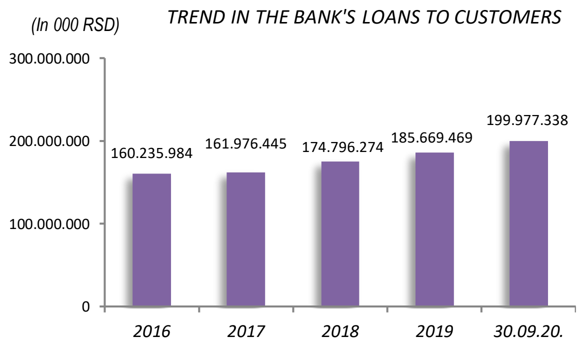
3.2. Financial position of the Bank against the sector

With the amount of balance-sheet assets of RSD 459,472.5 million, as of 30.09.2020 the bank had 10.2% of the banking sector i.e. ranked third. According to the data available on the NBS website, the bank's share in the banking sector at the end of 2019 was 10.6%.



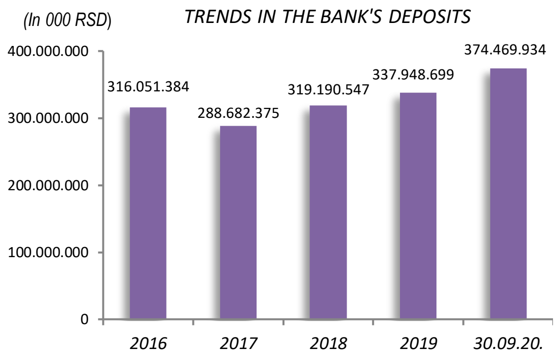


Loans to customers and the Bank's receivables as of 30.09.2020 amount to RSD 211,796.3 million, which is 7.4% of the Bank's market share. At the end of 2019 the Bank had 7.9% of the share in the banking sector with the amount of RSD 205,586.5 million worth of loans to customers and receivables.



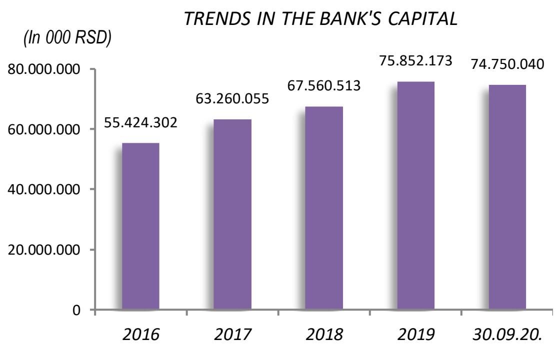
Note: for the sake of comparability with the previous years, the graph shows the Bank's loans to customers without other lending and receivables.

Share of deposits and other liabilities of the Bank in total deposits of the banking sector was 10.3% as of 30.09.2020 (RSD 376,841.4 million), and at the end of 2019 it was 10.4% (RSD 340,338.9 million).



Note: for the sake of comparability with the previous years, the graph shows the Bank's deposits without other liabilities and credit lines.

According to total capital, as of 30.09.2020, the Bank's share was 10.4% of the banking market (RSD 74,750.0 million), while at the end of 2019 the Bank's share was 10.7% of the banking sector (RSD 75,852.2 million).



4. MANAGEMENT BODIES, ORGANIZATIONAL STRUCTURE AND CORPORATE GOVERNANCE

4.1. Bank's Board of Directors

The Bank's Board of Directors was established in accordance with the Law on Banks, the Bank's Articles of Association and is made up of at least 5 (five) members, including the chairperson, of which at least one third of the members must be persons independent of the Bank. Members of the Board of

Directors of the Bank are appointed by the Bank's General Meeting of Shareholders to the period of four years. Draft decision on appointing the chairperson and members of the Bank's Board of Directors is established by the Bank's Board of Directors, at the proposal of shareholders.

Members of the Board of Directors of the Bank, as of December 31st, 2020 are:

NAME AND SURNAME	SHAREHOLDER/. MEMBER INDEPENDENT OF THE BANK	FUNCTION
Archibald Kremser	*NLB d.d. Slovenija*	*Chairperson*
Blaž Brodnjak	*NLB d.d. Slovenija*	*Member*
Uršula Kovačič Košak	*NLB d.d. Slovenija*	*Member*
Igor Zalar	*NLB d.d. Slovenija*	*Member*
Marko Jerič	*NLB d.d. Slovenija*	*Member*
Vesna Vodopivec	*NLB d.d. Slovenija*	*Member*
Nenad Filipović	*Member independent of the Bank*	*Member*
Guy Richard Steel Stevens	*Member independent of the Bank*	*Member*
Dragan Đuričin	*Member independent of the Bank*	*Member*

Competences of the Bank’s Board of Directors are specified in Article 73 of the Law on Banks and Article 27 of the Bank’s Articles of Association.

There is a quorum for work and decision-making by the Board of Directors if the meeting is attended by the majority of the total number of members of the Board of Directors of the Bank. The chairperson and each member are entitled to a single vote.

4.2. Executive Board of the Bank

Executive Board of the Bank is composed of the President of the Executive Board, Deputy President of the Executive Board and at least three members. The term of office of the members of the Executive Board of the Bank, including the President and Deputy President is four years from the date of appointment.

Members of the Executive Board of the bank, as of December 31st, 2020 are:

NAME AND SURNAME	FUNCTION
Vladimir Medan, PhD	*President*
Una Sikimić, PhD	*Deputy President*
Dragiša Stanojević	*Member*
Miroslav Perić, PhD	*Member*
Pavao Marjanović	*Member*

Competences of the Executive Board are defined in Article 76 of the Law on Banks and Article 31 of the Bank's Articles of Association.

Quorum for work and decision-making by the Executive Board exists if the meeting is attended by the majority of the total number of members of the Executive Board. The Executive Board passes decisions with the majority of votes of the total number of members.

4.3. Audit Committee

Audit Committee is composed of three members, two of whom are members of the Board of Directors of the Bank who have the relevant experience in the area of finance. One member of the Audit Committee is a person independent of the bank. Members of the Committee are appointed to the period of four years.

As of December 31, 2020 the members of the Audit Committee are:

NAME AND SURNAME	FUNCTION
Daniel Pantić, PhD	*Chairperson*
Dejan Hadžić	*Member*
Aleksandra Dragović Delić	*Member*

Duties of the Audit Committee are defined in Article 80 of the Law on Banks and Article 34 of the bank's Articles of Association.

There is a quorum for work and decision-making at the Audit Committee meeting if the meeting is attended by the majority of the total number of members of the Audit Committee.

When appointing members of the governance bodies, the bank applies the existing legal regulations that govern this area, primarily the Law on banks. In accordance with the Law, when selecting the members of the governance bodies, in a situation where it is mandated, the bank obtains a prior approval from the National Bank of Serbia to the proposed nominations for membership of the governance bodies.

4.4. Corporate governance

Rules of corporate governance in the bank are based on the relevant laws (primarily the Law on Banks, and the Company Law).

Competences and authorities of all of the Bank's bodies (General Meeting of Shareholders, Board of directors, Executive Board, Audit Committee, ALCO, Credit Committee) are based on the relevant laws and regulations and are defined with internal by-laws (Memorandum of Association, Articles of Association, rulebooks on operation of the Bank's bodies and other internal by-laws).

In its operation, in accordance with the Decision of the Bank's Executive Board No. 8373 of 09.04.2013, applies the Corporate Governance Code of the Serbian Chamber of Commerce (RS Official Gazette No. 99/2012) adopted by the General Meeting of the Serbian Chamber of Commerce.

Corporate governance rules are implemented through the Bank’s internal by-laws and there are departures in their implementation.

Corporate governance code establishes the principles of corporate practice which the corporate governance holders adhere to. The aim of the Code is to introduce good business practice in the area of corporate governance, equal effect of all stakeholders, existing and potential shareholders, employees, clients, the Bank's bodies, the government, etc. The final aim is to secure long-term and sustainable development of the Bank.

The wording of the Corporate Governance Code is published on the Bank's webpage (www.kombank.com/sr/o-nama/korporativno-upravljanje).

Description of changes in the company’s business policies

During 2020 the bank did not make any changes in the document Business Policy.

Business policy establishes the key principles of operation and defines the tasks that the bank performs with the aim of achieving business results and priorities defined in the applicable Strategy and the Business Plan, which is based on:

- the Bank's position in the financial market and the acquired trust of the clients in the Bank,
- projections of basic parameters of macroeconomic policy and
- the bank's developmental targets.

The Bank's business policy is compliant with the Risk Management Strategy and Capital Management Strategy, as well as with the policies for managing individual risks.

The Bank operates independently, on market principles, with the implementation of the principles of liquidity, profitability and security, while observing the law, other regulations and general principles of banking operations in achieving its goals in a socially responsible manner and in accordance with the basic values and business ethics.

Code of Conduct and Professional Ethics of the Bank

In its operations the Bank also applies the Code of Conduct and Professional Ethics of Komercijalna Banka - Code. The stated document sets up general ethical principles and binding rules of professional conduct. The aim of the Code is to present the achieved standard of good banking practice and basic principles and rules of the professional ethics in a form of mandatory rules of conduct.

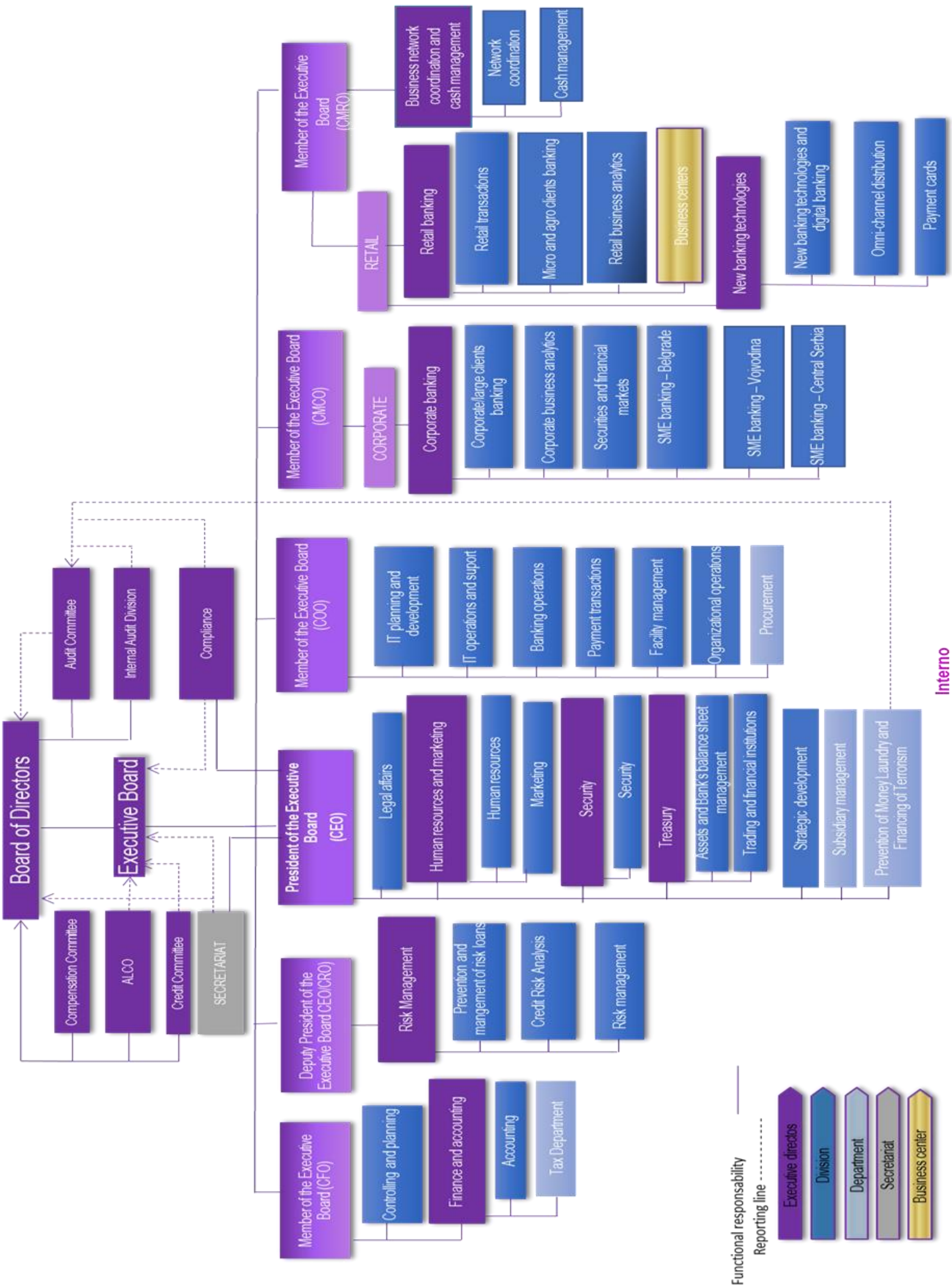
Adherence to rules and principles contained in the Code is a prerequisite for performing business activities in the spirit of business morality, good business practices and the principles of conscientiousness and honesty. The application of the Code contributes to the preservation of the Bank's already developed reputation, the creation and maintenance of trust in the Bank's security and the realization of the common interests of the Bank's employees and clients.

Responsibility for the application of the Code lies with all the employees, members of the management bodies, and all other persons engaged on the basis of a contract to perform activities in the Bank.

Conducting in accordance with the standard principles of business ethics implies adherence to the principles of:

- legality of business,
- conscientiousness and honesty,
- expertise and professionalism,
- respect and trust,
- equal treatment and informing clients,
- equality and privacy.

4.5. Organizational structure of the Bank



Note: Organizational Scheme of the Bank as of 31.12.2020

5. BRANCHES OF THE BANK

In compliance with the new organization of the business network, which has been fully applied since March 2018, the Bank performs its business operations through the network of Business Centres, one branch and network of sub-branches, whose number is changing and adjusted to market requirements, Small and Medium Corporate Banking Division (Belgrade, Vojvodina and Central Serbia), Corporate Banking Division-Large Clients. During 2020, the business operations were performed in the Bank's Headquarters in Belgrade, 6 Business Centres (designated for work with private individuals), 203 sub-branches and Kosovska Mitrovica Branch (for operations on the territory of Kosovo and Metohija), 3 Divisions for operations with small and medium corporates (Belgrade, Central Serbia, Vojvodina, designated for operations with corporate clients) and in Division for operations with large clients -Belgrade.

The Bank also has three subsidiaries, which together comprise Komercijalna banka a.d., Beograd Group, as follows:

1. Komercijalna banka a.d., Podgorica in the Republic of Montenegro (100% ownership),
2. Komercijalna banka a.d., Banja Luka in Bosnia and Herzegovina (99.998% ownership) and
3. KOMBANK INVEST a.d, Beograd, UCITS Fund Management Company (100% ownership).

Komercijalna banka ad Banja Luka
-163 employees,
-19 organizational parts
(10 branches and 9 agencies).

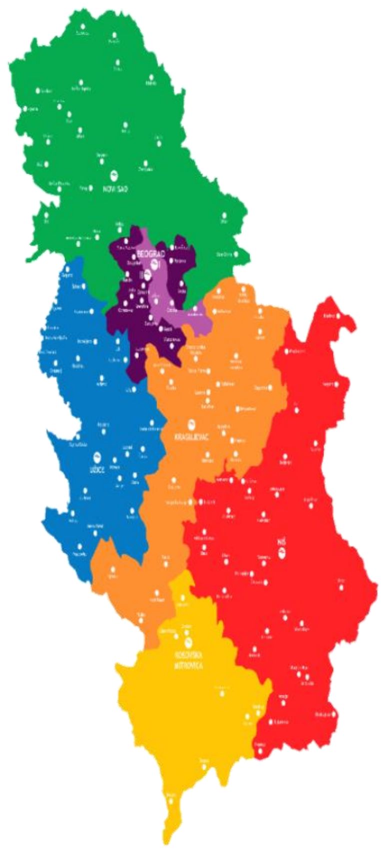
Komercijalna banka ad Podgorica
-148 employees,
-10 organizational parts
(9 branches and 1 sub-branches).

KomBank INVEST ad Beograd
-5 employees.

5.1. Regional layout of the Bank's business network

BANK'S BUSINESS NETWORK

	BUSINESS CENTRES	SEAT
1.	BC Beograd 1	Trg Politike 1, Beograd
2.	BC Beograd 2	Trg Politike 1, Beograd
3.	BC Kragujevac	Moše Pijade 2, Požarevac
4.	BC Niš	Episkopska 32, Niš
5.	BC Novi Sad	Bulevar oslobođenja 88, Novi Sad
6.	BC Užice	Petra Ćalovića 4, Užice
	BRANCH	**SEAT**
1.	Kosovska Mitrovica	Čika Jovina 11,Kosovska Mitrovica
	DIVISIONS	**SEAT**
1.	Corporate Banking Division –Large Clients	Svetogorska 42-44, Beograd
2.	Small and Medium Corporate Banking Division –Vojvodina	Bulevar oslobođenja 88, Novi Sad
3.	Small and Medium Corporate Banking Division -Beograd	Svetogorska 42-44, Beograd
4.	Small and Medium Corporate Banking Division –Central Serbia	Svetogorska 42-44, Beograd



Following the conducted reorganization of the business network in 2017, as well as after the analysis of the effects of implemented changes to operations, at the start of 2018 the Bank conducted additional changes in the business network. In March 2018 a new change was made to organization within the Corporate business function when formally, instead of Business corporate centres, Small and Medium Corporate Banking Divisions Beograd, Central Serbia and Vojvodina were established. The essential change included the functional merging of sales and credit analysis operations within the same organizational form (Small and Medium Corporate Banking Division Beograd, Central Serbia and Vojvodina). In 2020 there were no changes in organization within the corporate business function.

Due to fact that a large number of Bank's clients still want a traditional service, and/or a direct relationship with the Bank and the employees in sub-branches, the branched business network was retained. Operations in retail segment, during 2020, were performed by the Bank through 203 sub-branches, in terms of which we are a market leader. 284 ATMs and around 13.400 POS terminals are available to customers, in terms of which we were also one of the leaders in the market. The Bank continued the activities related to improvement of users experience by enhancing the appearance of sub-branches, moving to new premises, and by adjustment/optimization of the working hours and alike.

5.2. Important activities with related parties

Total exposure to parties related to Bank, as of 31. December 2020 amounted to RSD 1.508,4 million, which in relation to regulatory capital of RSD 68.219,7 million, equalled 2.2% (maximum permitted value of total placements to all parties related to the Bank under the Law on Banks is 25% of the Bank's capital).

The largest individual exposure to parties related to Bank (in line with the NBS methodology for presentation of exposure to parties related to Bank), as of 31 December 2020 is the exposure amounting to RSD 844,1 million, or 1.2% of Bank's regulatory capital. A further presentation of Bank’s relationship with related parties can be seen in the Item related parties in the Notes to Financial Statements.

6. FINANCIAL POSITION AND BANK'S OPERATING RESULTS IN THE YEAR 2020

6.1. Introduction

Bank’s operations in 2020 were marked by ending the activities pertaining to the process of privatization of the Bank. After the Contract was signed in February 2020, between the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana, Slovenia, on purchase and sale of 83.23% ordinary shares of Komercijalna banka a.d. Beograd, the ''closing process'' had started in March 2020, the takeover process (acquisition) of the Bank that was successfully completed on 30.12.2020. In addition to activities related to privatization process, the Bank’s management had as the key goals the preservation of safe, stable and profitable business operations. The key task of the Bank’s management was managing the risk in business operations and particularly credit risk, with the aim of achieving the good quality credit portfolio in the given conditions. Policy of Bank's management to allocate a part of generated profit to reserves, over the previous years, enabled the safety of operations by increasing the capital and capital adequacy ratio of the Bank, which proved to be the right policy in the conditions of Covid-19 pandemic.

Realized net interest income during 2020 is lower than in 2019, as are net fee and provision income. Lower amount of interest income is a result of lower lending interest rates in the market, particularly interest on securities, while the amount of expenses is influenced by the growth of deposits which the Bank collected in the previous period.

Realized net fee and commission income is impacted by lower fee income from payment transactions and payment cards due to COVID-19 pandemic virus.

COVID-19 virus pandemic had an impact on financial result and the Bank’s position, inter alia, by disabling the implementation of a part of activities related to optimization of the asset structure (reduction of non-interest bearing assets), and/or it impacted the application of more conservative loan impairment policy.

The results of Bank’s operations in 2020, as well as the whole sector, were impacted by adopting a number of decisions of the National Bank of Serbia and the Government that were aimed at facilitating the debtors to discharge the financial obligations to financial organizations.

Balance Sheet total

At the end of 2020, the balance sheet total of the Bank (net assets), reached the amount of RSD 459.427,7 million (EUR 3.9 billion) and is increased 6.3% compared to the end of 2019. During previous year, as well, the focus of Bank's operations was on preserving the business operations, profitability, on maintaining and further improving the quality of credit portfolio. Also, the management of the Bank in emergency conditions of the present COVID-19 pandemic worked on finding the new sources of income and more effective deployment of available funds.

Funding sources

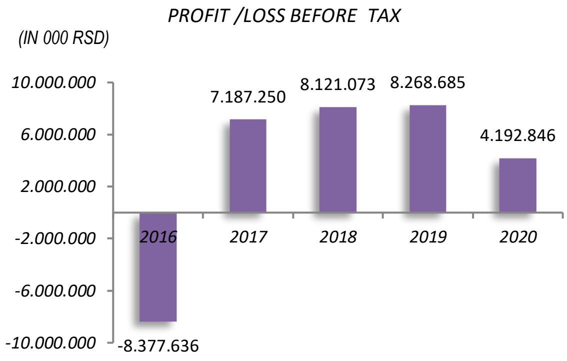
During 2020, as in previous years, despite the COVID-19 pandemic and emergency state a stable growth of retail FX savings has continued of EUR 46.9 million, which is the main source of Bank's funding. Total retail deposits have grown during 2020, as well, and have increased by RSD 28,784.1 million in comparison to 2019. Corporate deposits recorded a decline by RSD 113.9 million relative to the end of 2019. Deposits of banks and other financial organizations, at the end of 2020 are increased by RSD 8,968.5 million compared to the end of 2019.
The amount of Bank's obligations based on received credit lines at the end of 2020 amounts to RSD 977.2 million and relative to the balance at the end of 2019 has been reduced by RSD 449.6 million. The Bank has no subordinated liabilities in balance sheet at the end of 2020.

Loans

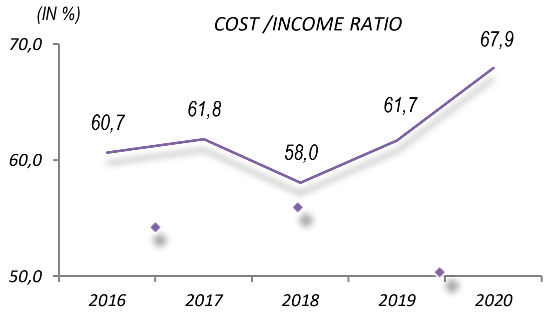
During 2020, the Bank recorded a decline in corporate loans in the amount of RSD 2,671.3 million. In segment of retail operations, a growth of loans has been realized amounting to RSD 9,528.7 million. Within the structure of net balance of loans at the end of the reported year the housing and cash loans prevail. During 2020 the Bank continued to invest the available portion of liquid funds in securities. As of 31.12.2020 investments in securities amount to RSD 153,776.3 million, which is an increase of RSD 15,306.8 million, or 11.1% relative to the end of 2019.

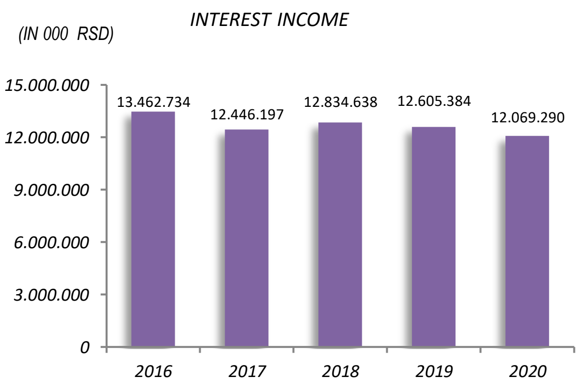
Profitability

Despite the COVID-19 pandemic and aggravated business conditions the Bank achieved a positive result at the end of 2020, profit before tax in the amount of RSD 4,192.8 million. The achieved result represents a reduction of RSD 4,075.8 million when compared to 2019. The stated reduction is largely a result of recorded expenses from impairment of financial assets that are not measured at fair value through P&L.

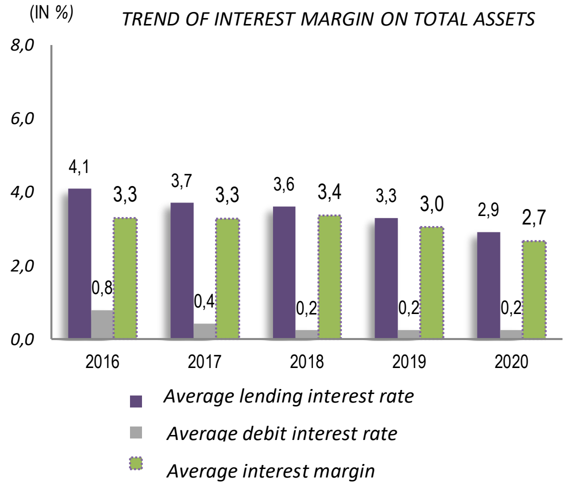


Cost/Income ratio at the end of 2020 was 67.9% and compared to 61.7% at the end of 2019, it shows increasing trend mainly due to increase of operating expenses. The amount of operating expenses is impacted by the increase of costs of salaries, salary compensations and other personal expenses (due to recognized liabilities arising from annual awards to employees chargeable to operating expenses in 2020).
The growth of operating expenses with somewhat lower interest and fee income resulted in growth of Cost/Income ratio at the end of 2020.

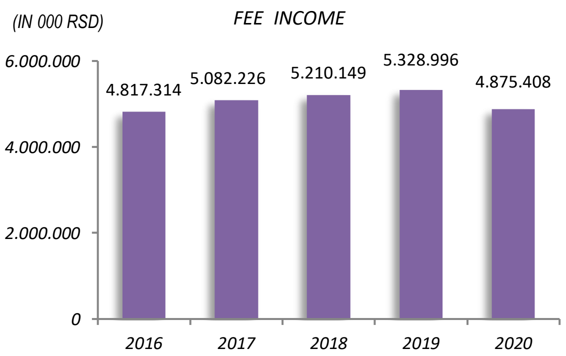




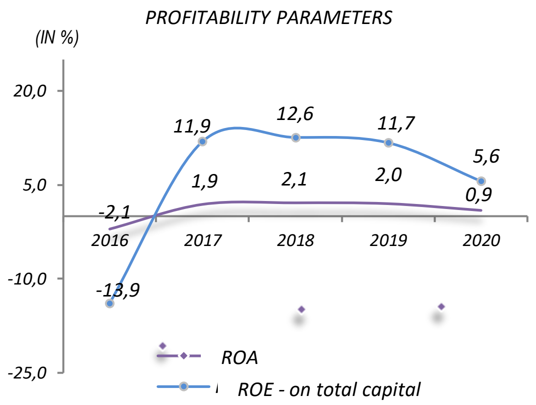
During 2020 the realized interest income amounts to RSD 12,069.3 million and represents a decline of 4.3% compared to the same period in 2019. The amount of interest income is impacted by lower lending interest rates in the market, in particular lower interest rates on securities.



During 2020 a mild decrease was recorded of lending interest rates while debit interest rates remained stable and at the level from 2019. Interest margin on total assets was realized of 2.7%.



Fee and commission income realized in the course of 2020 amounts to RSD 4,875.4 million and records a reduction of 8.5% compared to the same period 2019. The absence of part of the fee income from payment transactions and payment card transactions had a significant impact on the amount of fee income (due to the COVID 19 virus pandemic).

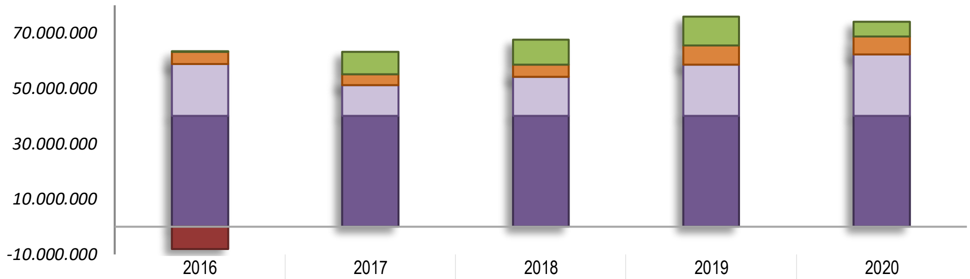


Due to changed working conditions in 2020 lower values of ROA and ROE were realized than those realized in 2019.

Bank's capital

BANK'S TOTAL CAPITAL IN PERIOD 2016-2020

(IN 000 RSD)

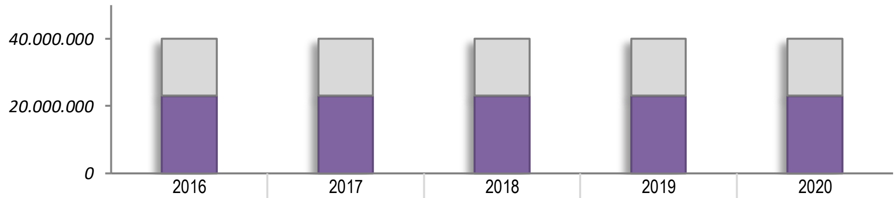


	2016	2017	2018	2019	2020
LOSS	-8.063.183	0	0	0	0
RETAINED EARNINGS	349.698	8.137.249	9.047.691	10.425.898	5.319.351
REVALUATION RESERVES	4.311.409	4.026.721	4.254.737	6.826.518	6.585.755
RESERVES FROM PROFIT	18.791.828	11.061.535	14.223.535	18.565.207	22.147.207
SHARE CAPITAL	40.034.550	40.034.550	40.034.550	40.034.550	40.034.550
CHANGE IN CAPITAL (IN %)	-12%	14%	7%	12%	-2%
TOTAL CAPITAL	55.424.302	63.260.055	67.560.513	75.852.173	74.086.863

At the end of 2020, total Bank's capital amounts to RSD 74,086.9 million and is reduced 2.3% relative to the end of 2019. The amount of capital at the end of 2020 is also impacted by allocation of profit from 2019. By the stated allocation a part of profit from 2019 has been distributed to dividends to the owners of ordinary and preference shares. Over the period from 2011 to 2020 the Bank's total capital was increased by 67.3%. In the same period the share capital was increased 40.7%, or RSD 11,572.0 million. For a longer period of time, the Bank allocated a significant part of the realized profit to reserves for estimated losses in order to maintain business security and capital adequacy, i.e., to protect share capital from possible losses and to increase capital. Over the last five years, from realized profit and based on revaluation the Bank was first increasing the total reserves and then partially used them for covering losses recorded at the end of 2015 and 2016. At the end of 2020 the reserves from profit have been increased relative to 2019 by RSD 3,582.0 million. Together with revaluation reserves, the Bank's total reserves have been increased by RSD 3,341.2 million compared to 2019.

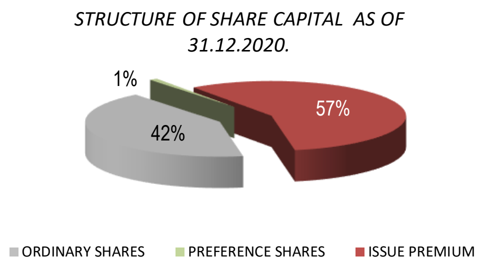
SHARE CAPITAL OF THE BANK IN PERIOD 2016-2020

(IN 000 RSD)



	2016	2017	2018	2019	2020
ORDINARY SHARES	16.817.956	16.817.956	16.817.956	16.817.956	16.817.956
PREFERENCE SHARES	373.510	373.510	373.510	373.510	373.510
CONVERTIBLE PREFERENCE SHARES					
ISSUE PREMIUM	22.843.084	22.843.084	22.843.084	22.843.084	22.843.084
TOTAL SHARE CAPITAL	40.034.550	40.034.550	40.034.550	40.034.550	40.034.550

Ordinary (common) shares of the Bank have been traded with on „Standard listing" since 2010, while the preference shares have been traded with at „Open market" market of the Belgrade Stock Exchange. During 2014 convertible preference shares were converted into ordinary shares and since then there were no changes in the structure of share capital. As of December 31, 2020 the Bank has 16,817,956 ordinary (common) shares and 373,510 preferred (preference) shares with single nominal value of RSD 1,000.00.



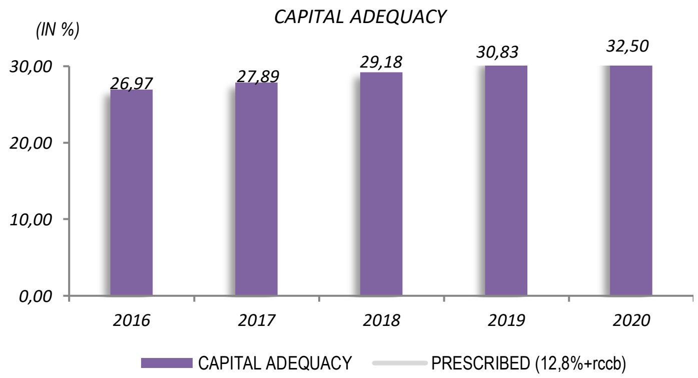
Bank's shareholders (with stake over 5%) as of December 31, 2020 are as follows:

SHAREHOLDERS	ORDINARY SHARES	% OF STAKE	PREFERENCE SHARES	% OF STAKE	TOTAL SHARES	% OF STAKE IN SHARE CAPITAL
NLB d.d. Slovenia	13.997.686	83,23	0	0,00	13.997.686	81,42
OTHER	2.820.270	16,77	373.510	100,00	3.193.780	18,58
TOTAL	16.817.956	100,00	373.510	100,00	17.191.466	100,0

As at 30.12.2020, Nova Ljubljanska banka d.d. Slovenia completed the process of taking over Komercijalna banka a.d. Beograd. On the said day the Agreement on the transfer of shares of Komercijalna banka a.d. Beograd was signed between the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana, Slovenia.

Capital adequacy

At the end of 2020 the Bank’s capital adequacy ratio, despite still considerable amount of reserves, equals 32.50%, which indicates that the Bank maintained the adequate capitalization. Even during 2020, COVID-19 pandemic, aggravated business conditions, work of employees from home, the Bank complied with all performance indicators prescribed by the Law on Banks, and discharged all the obligations, which is a reliable indicator of stable and secure business operations.



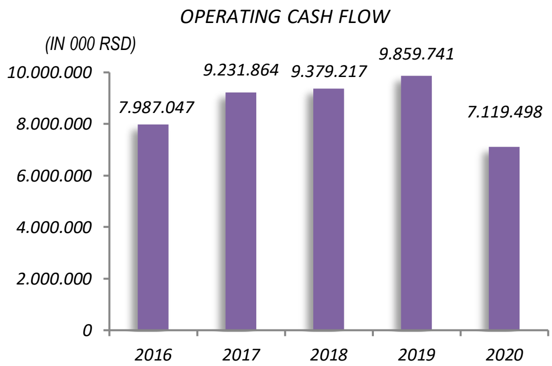
Performance indicators prescribed by the law

No	DESCRIPTION	PRESCRIBED	2020.	2019.	2018.	2017.	2016.
1.	CAPITAL ADEQUACY RATIO (CAPITAL / RISK ASSETS); *REQUIREMENT FOR COUNTERCYCLICAL CAPITAL BUFFER	MIN 12.8%+rccb*	32,50%	30,83%	29,18%	27,89%	26,97%
2.	INDICATOR OF INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR AND FIXED ASSETS	max 60%	11,53%	13,05%	13,18%	14,96%	17,47%
3.	INDICATOR OF LARGE EXPOSURE OF THE BANK	max 400%	2,21%	26,62%	39,77%	34,96%	38,48%
4.	FX RISK RATIO	max 20%	1,95%	1,98%	1,87%	4,40%	2,96%
5.	LIQUIDITY RATIO (monthly, last day in month)	min 0,8	4,06	4,08	3,86	4,30	2,86

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.

Operating cash-flow

Operating cash-flow, at the end of 2020 when compared to the same period in 2019, has been reduced by RSD 2,740.2 million, or it has been reduced by 27.8%. In the conditions of declared emergency state, COVID-19 pandemic, changed business conditions, in the reporting period a decline was recorded of interest inflow by RSD 2,227.2 million, or a decline by 15.6%. Fee inflow in the same period recorded a drop of RSD 399.8 million, or a drop by 5.6%. As for cash outflow from operating activities, disbursements based on fees have been realized in larger amount by RSD 132.1 million during 2020.



6.2. Corporate Banking Operations

Main market trends

Operations of the corporate business function in 2020 were to a significant extent under the influence of declared state of emergency and restrictive measures in the Republic of Serbia due to COVID-19 virus pandemic
In 2020 the downward trend in dinar interest rates continued as a consequence of lowering the reference interest rate of the NBS, while interest rates on foreign currency indexed loans stabilized.

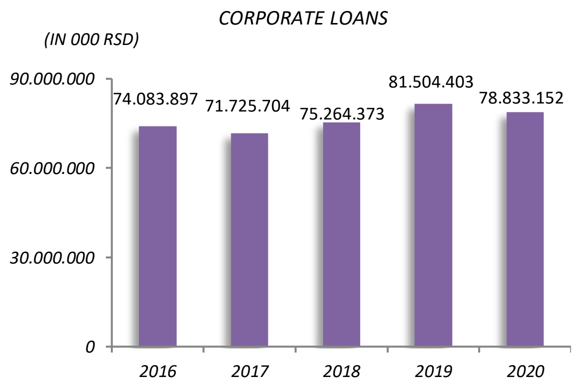
Banks' standards for newly approved corporate loans remained unchanged in 2020 and above all for small and medium-sized enterprises, as well as for large enterprises.

Observed by maturity and currency, a slight easing of standards is present in short-term and long-term lending to corporates in dinar and also short-term lending to corporates in foreign currency.

In 2020 there was a growth in a level of corporate loans. In the banking sector the level of loans is higher in comparison to the end of 2019 (in total, the companies, public enterprises and local government recorded a growth by 11.7%, or RSD 154.1 billion).[86]

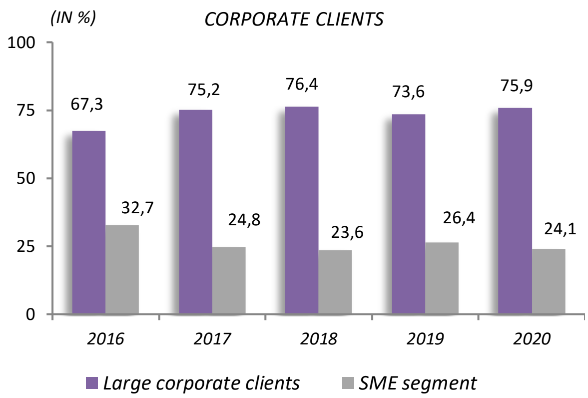
Loans[87] - Bank's operations

Realization of newly approved loans in 2020 is lower by 20% relative to 2019. Compared to the beginning of the year in segment of large corporate clients a slightly lower realization was achieved, whilst in the same period a drop in SME segment has been recorded. Balance sheet portfolio decreased by 6.4% compared to the beginning of the year, and the share of large corporate clients in the portfolio structure increased from 73.6% (at the end of 2019) to 75.9%.

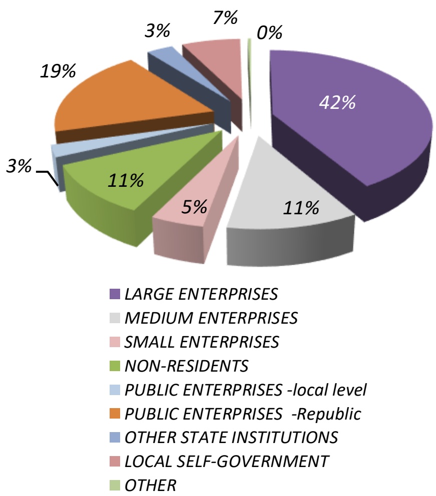


86 NBS, Consolidated balance sheet of the banking sector, November 2020.

87 Position of granted loans does not include other investments



CLIENT STRUCTURE AS OF 31.12.2020



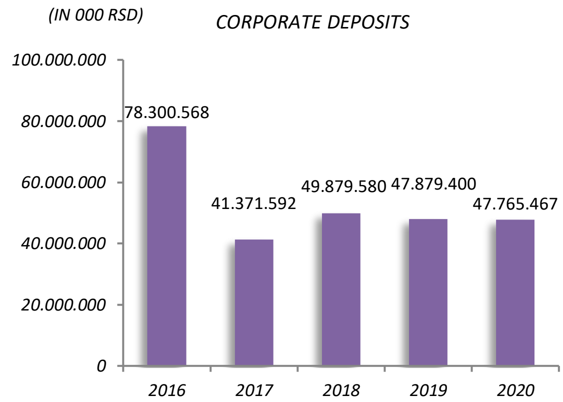
The average weighted interest rates on disbursed loans in RSD in 2020 are at approximately the same level, while the rates in EUR are at a slightly higher level compared to disbursed loans in 2019.

Interest rate on loans indexed in EUR is still lower when compared to loans in dinars which, in the conditions of a stable exchange rate, was the determining factor of the market for higher demand for currency indexed loans in relation to dinar loans. Out of total amount of realized loans in 2020, 19% were realized in dinars, while 81% were realized through loans indexed in EUR. Accordingly, in 2020 there was a growth of share of dinar loans in total portfolio.

In terms of competition during 2020, the most active were Banca Intesa a.d. Beograd, UniCredit banka Srbija a.d. Beograd, Raiffeisen banka a.d. Beograd, OTP banka a.d. Beograd.

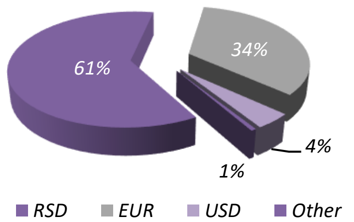
Deposits [88]

High share of transaction deposits of 80% of total corporate deposits results in lower interest expenses and positively impacts the Bank's business result.



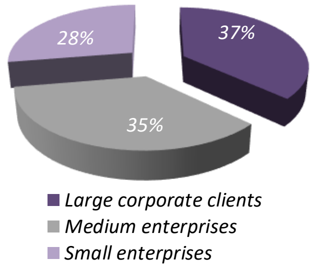
Note: At the end of 2017 RSD 11.2 billion of micro clients' deposits were transferred from corporate to retail on account of which the information differ from the information contained in previous annual report; amount of corporate deposits at the end of 2016 is impacted by a single deposit.

CURRENCY STRUCTURE OF DEPOSITS AS OF 31.12.2020.



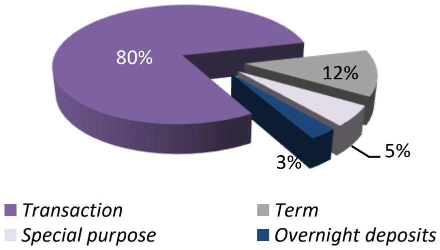
88 Position deposits does not include other liabilities and assets received through credit lines

STRUCTURE OF DEPOSITORS AS OF 31.12.2020.

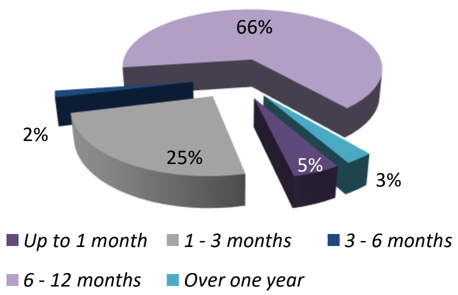


Note: The structure of depositors is presented on the basis of internal segmentation of clients.

MATURITY STRUCTURE OF DEPOSITS AS OF 31.12.2020.



MATURITY STRUCTURE OF TERM DEPOSITS AS OF 31.12.2020.



6.3. Retail Banking Operations

Operations in Retail business function in 2020 was to a significant extent under the negative influence of declared state of emergency and general health situation due to COVID-19 virus pandemic.

The most important operating goals were as follows:

- Preserving the client base and portfolio from negative consequences of pandemic by implementing the moratorium on repayment of obligations, in line with the Decision o temporary measures for preserving stability of financial system rendered by the National Bank of Serbia;
- Protection of clients' and employees' health, while providing the continuity of operations with reduced capacity of operations. Sub-branches worked with shorter working hours, smaller number of employees, and 40 sub-branches were temporarily closed during the state of emergency.

Regardless of all restrictions, during the state of emergency the Bank succeeded to provide the service in appropriate manner to all the clients that needed it.
Normalization of business began on 11.05.2020.

Loans

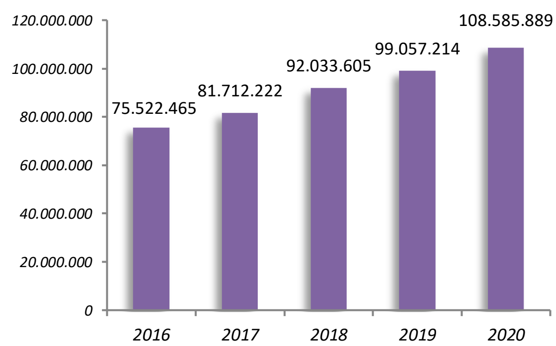
The realization of loans has experienced expansion, especially in the micro business and agro segment, where the Bank has adequately used lending programs from the Guarantee Scheme of the Government of the Republic of Serbia and subsidized agricultural loans in cooperation with the Ministry of Agriculture.

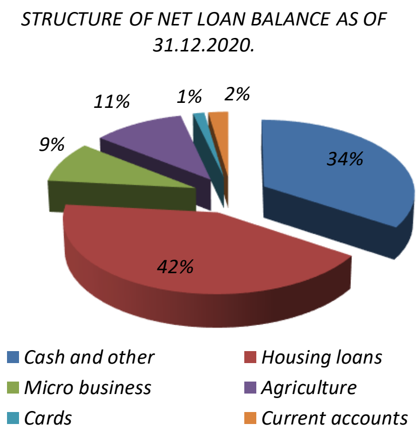
In segment of agricultural subsidized loans, the bank was convincingly the first on the market with a share of 37% in the number of loans and 24% in the amount of loans. Participation in micro business loans from the Guarantee Scheme is also considerable, about 10% in number and amount.

With all the stated challenges, net balance of retail loans increased by RSD 9.5 billion in comparison to the balance from the start of the year.

In the structure of net balance, the share of housing loans is 42% and the share of other products is 58%.

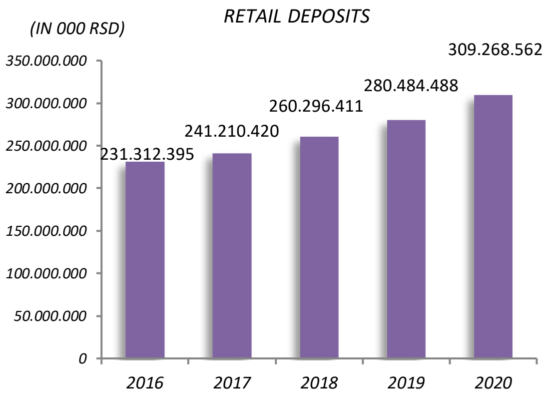
(IN 000 RSD) *RETAIL LOANS - net balance*





Deposits [89] - Bank's operations

Balance of deposits, despite all the challenges, as at 31.12.2020 is higher by RSD 28,784 million relative to the start of the year.



Other products

In Retail segment the Bank has a respectable base of 1.3 million clients. In the most important segment, private individuals with regular personal income through current account, the Bank has 422,000 clients, with achieved growth since the beginning of 2020. Clients with regular personal income are one of the most significant segments of retail operations and are the basis for growth of lending activity, and in particular for authorized overdrafts on current account, since the same make for the most profitable product, and are used by every fourth client. The Bank recorded an increase in number of clients that use the „Set account“, as a higher quality product compared to basic current account, of about 14%, relative to the end of 2019. Out of total number of „Set accounts“, 12% are „Start sets“ intended for the youngest clients, which makes the basis for secure operations in the future, whereby the Bank is developing the client base in a long-term. The number of debit and credit cards is slightly increased.

In micro business segment the Bank records an increase of „Set accounts“ by approximately 7% compared to 2019. We emphasize that more than 15,000 micro clients regularly use the Bank's electronic services.

E-banking for private individuals

Through electronic channels at the end of December 2020 the Bank provides for private individuals a service for more than 231,000 unique clients.
The constant growth of users continued in the last quarter of 2020, where the "mBank" channel had an increase in users by 41% annually.
On „eBank“ channel the increase in number of users as of the fourth quarter 2020 was 14% annually.
The growth in number of electronic channels users is a result of intensive activities of the business network to animate clients with regard to the numerous benefits that "eBank" and "mBank" provide.

Number of transactions has significantly increased on „mBank“ channel, it is higher by 90% compared to the last year.
On „eBank“ channel a number of transactions increased by 4% compared to 2019.

Business network

Operations in retail segment were performed by the Bank in 203 sub-branches which makes it a market leader. 284 ATMs and about 13,400 POS terminals are available to clients, in terms of which we are also one of the leaders in the market. Taking into account the needs of clients, the Bank continued the activities aimed at improving the user's experience by enhancing the appearance of sub-branches, by moving to new premises, adjustment/optimization of the working hours and alike.

[89] Position deposits does not include other liabilities and assets received through credit lines

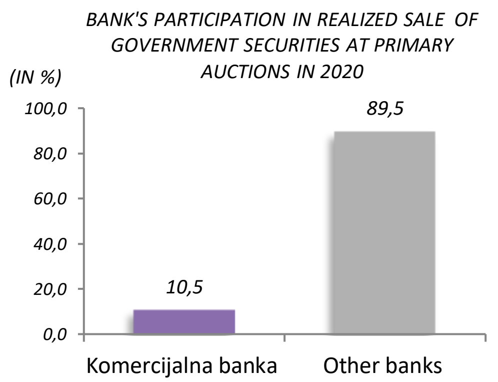
Profitability

Despite all the business challenges caused by COVID-19 virus pandemic and the state of emergency, the retail operations in 2020 generated total net interest and fee income in amount of RSD 9,760 million. The quality of credit portfolio and client base have been preserved, which will lead to even higher net income in the future.

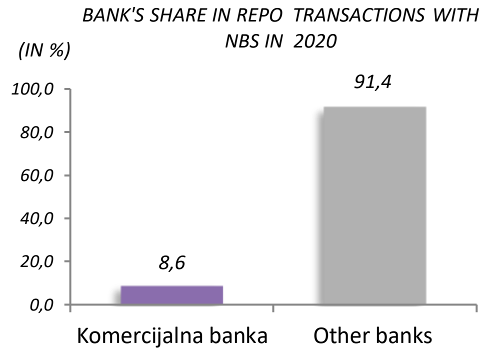
6.4. Asset management

Starting from the strategic orientation of the Bank, the activity of Treasury business function is focused on active asset and liquidity management while ensuring the smooth functioning of the Bank and meeting the business needs of the clients.
The environment in which the Treasury function operated was marked by the reduction of the reference interest rate (RIR) during 2020 from 2.25% to 1.00%, the stabilization of interest rates at a relatively low level, the trend of declining yields on domestic government securities and negative interest rates on EUR and CHF in foreign markets, which, given the available funds, posed a very significant challenge in liquidity management.

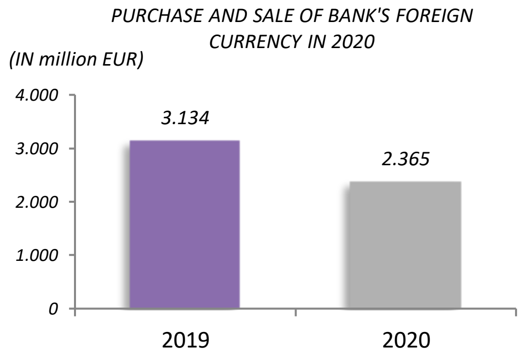
In 2020, the Bank's liquidity position was stable, and liquid assets were invested mainly in government securities of the Republic of Serbia.



High participation of the Bank at primary auctions of government securities of the Republic of Serbia was accompanied by active participation at the secondary market, while considering the maturity structure of sources, the largest part of short-term dinar liquidity was invested through short-term placements at the interbank market and through operations with the National Bank of Serbia.



In total operations with the clients, authorised exchange dealers and other banks in the interbank FX market, the volume of purchase and sale transactions decreased by 24.53% compared to the previous year, primarily as a result of the impact of the COVID-19 pandemic.



The strategy of Treasury function in the next period will be focused on conservative deployment of liquid assets in risk-free and low-risk financial instruments.

6.5. Results of the business function New Banking Technologies with its separate parts

Market - basic tendencies

The pandemic caused by the COVID-19 virus significantly affected the financial needs of clients, the way they enter into relations with the Bank, as well as the work of employees.

The Bank's Contact Centre, Digital Branch of the Electronic Banking Support Department worked at full capacity to respond to all customer needs. Over 427 thousand voice interactions and about 177 thousand written interactions with clients were realized.

In order to overcome the consequences caused by the COVID-19 pandemic, the Bank made an additional effort as an acceptor by abolishing fixed fees for the use of POS terminals in order to enable smaller merchants to keep POS terminals and thus provide non-cash payments with payment cards as a recommended payment method in epidemiological situation.

In recent years, the NBS has implemented significant reforms of the payment system, the effects of which have begun to bear fruit. The use of the national card scheme and the support of the domestic card brand "Dina" has led to an increase in the number of users of "Dina" cards and an increase in the number of virtual points of sale that accept "Dina" cards. It is also possible to use the "Dina" card without commission at the counters of the Treasury Administration for paying taxes and contributions of citizens, as well as for settling other obligations towards users of public funds.

The payment system for instant payments as a multi-phase project continued during 2020, so instant payment at the merchant's point of sale and payment of invoices by scanning the QR code is enabled.

According to the latest available statistics data in the Serbian market in the third quarter of 2020 an upward trend continued of the users of electronic services and electronic payment. The pandemic forced customers who resisted the use of electronic channels to adopt digital payment methods, which further contributed to the growth of market activity.

- The number of internet payment users increased by 13.1% compared to the third quarter of 2019 and numbered over 3.0 million internet payment users at the end of the third quarter of 2020;
- In the same period the number of mobile payment users increased by 25.3% and at the end of the third quarter 2020 and numbered over 2.0 million users;
- Payment transactions initiated electronically record in the first three quarters a growth of 2.6% for internet banking and 45.9% for mobile banking compared to the same period in 2019;
- Payment service providers accepted payment transactions at over 95,0 thousand POS terminals which is an increase of 5.9% compared to the third quarter 2019, while the number of virtual points of sales increased by 54.9%, and number of ATMs by 2.3%;
- Payment transactions for the purchase of goods and services via the Internet increased by 61.8% in total for all financial instruments that enable online payments;
- Cash payment and disbursement transactions continue the downward trend of -21.6% for payments to the payment account and -14.8% for disbursements from the payment account, further confirming the increase in the preference for non-cash methods of payment.

6.5.1. Development activities of Bank's digital banking

Despite extraordinary circumstances caused by COVID-19 virus pandemic, which resulted in reorganization of regular business activities and reallocation of the employees to work from home, the key planned projects have been successfully realized.

The bank was among the first to obtain a license to provide instant payments at the merchant's point of sale and enabled the acceptance of instant payments on its POS terminal reception network, as well as the initiation of payments through the mobile banking application.

Within the same project for small traders who do not meet the necessary requirements for POS devices, a mobile application for accepting instant payments was enabled, which was developed by the Serbian Chamber of Commerce.

During the development process, modifications were made to the mobile banking application in

order to enable payment via QR code, followed by modifications to the merchant's POS terminal software and to the trading application. Merchant integration and transaction processing have been enabled and refinements to PGW have been implemented. After a successful pilot production, mass production has been available to clients since March 19, 2020.
The following phases of development projects have been initiated, which enable the acceptance of instant payments at virtual points of sale, as well as P2P money transfer via a mobile banking application using "deep link" technology.

The project of integration of the digital branch office "KOMeCENTER" with the application for mobile banking of the Bank has been launched, which will expand the functionalities already available on the application for internet banking to the mobile channel. Through the mobile banking application, clients will be able to apply for a cash loan, allowed overdraft, apply for cards and other products of the Bank.

Analytical predictive tool (CRM - "Customer Relationship Management") was activated in March 2020 on the application for mobile banking for private individuals, which enabled "RTDM" messages on another electronic channel for private individuals in addition to the application for internet banking. At the end of 2020, the development and testing of the decision tree for the "RTDM" campaign for sending the best offer to micro legal entities and entrepreneurs through the KOMBANK BIZ WEB application was completed. Production is expected in the first quarter of 2021.

In August 2020, the "Self Learner" model was activated, which, based on the history of accepting / rejecting offers and characteristics of the client, and thanks to advanced analytics, predicts his behaviour. The forecasts will influence the maximization of sales of the Bank's services and products to digital channel users. Three basic models have been created to identify customer needs and group them into specific categories.

A new version of the mobile application for private individuals with an integrated CRM tool and enabled payment via QR code has been delivered. At the end of 2020, the key performance indicators of electronic channels had excellent results:

- ✓ The number of private individuals' electronic banking users has been increased by 11.2% compared to previous year, as well as outgoing transactions and the number of transactions (growth of 3.2%) of electronic banking for private individuals.
- ✓ Number of users of mobile application for private individuals increased by 40.8%, accompanied by growth in number of transactions of 90% and increased turnover.
- ✓ The total number of users of the electronic banking for legal entities has been increased by 10.2%, while the number of transactions is reduced compared to previous year, due to suspensions of business in April and May, and the turnover realized at the same time recorded a slight increase.

Additional process automation was performed in the digital branch of the bank "KOMeCENTAR". A record number of submitted and realized requests was achieved, the largest number of realized applications for credit products referred to the allowed overdraft, while the largest realization of non-credit products was on current accounts of private individuals.

6.5.2. Development activities of payment cards

- A marketing campaign was launched with the "MasterCard" association in order to increase the number of business users, and thus increase the turnover on business cards. The campaign aims to acquaint the user with the possibilities provided by using the card and the benefits it receives. The campaign aims to stimulate the user to take the card, make a transaction and receive a gift voucher for that.
- Constant cooperation with marketing team of „MasterCard“/“Visa“ and presenting the advantages to users of „Master“ and „Visa“ cards on Bank's social networks.
- The system of protection when purchasing goods and services on the Internet for MasterCard and VISA payment card users has been improved with the help of 3D Secure Code, which includes additional verification of the user's identity with the help of a one-time password by sending an SMS to the user's mobile phone number.
- Following the trends but also with a desire to simplify and unify the method of payment by cards of Komercijalna banka on the Internet, the Bank made a change to payment from the so far used Secure Code to OTP code, for the Merchants that have not yet switched to the new version of 3DS protection.
- In cooperation with Mirabank Komercijalna banka issued the „co-branding“ card „Visa Business PrePaid“. The card is intended for legal entities that have an account with Mirabank.

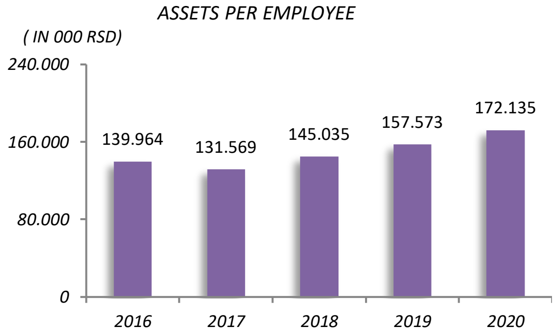
6.6. Securities Division

The Securities Division is a separate organizational form of the Bank consisting of the Authorized and the Depository - the Custody Bank, with the permits of the Securities Commission for the provision of investment and additional services, i.e., depository services. In 2020, in operating with financial instruments in the capital markets, the Bank achieved the following results:

- The Bank ranks second in number of transactions and seventh in value of transactions realized at Belgrade Stock Exchange;
- Operations and internal by-laws are complied with the new regulations for UCITS investment funds and activities of depositary bank;
- Significant increase in number of clients who use digital services of on-line trading at the stock exchanges abroad and Belgrade Stock Exchange – by a quarter of the total number of present clients, with an increase in value of turnover;
- Payment of dividends to the Bank's shareholders for the period 2014-2019 for the owners of ordinary and preference shares in the amount of over EUR 100 million;
- Attracting the majority of owners of newly issued foreign currency savings bonds for subscription of bonds to the Bank's account;
- Maintaining the work process and servicing clients in aggravated pandemic conditions with an increase of performance indicators in certain areas, primarily in trading at stock exchanges abroad.

6.7. Human resources of the Bank

The mission of human resources management in Komercijalna banka is to develop and maintain a high level of expertise and motivation of employees in order to implement the business plans of the Bank. Along with the continuous optimization of the number and structure of employees in recent years, the efficiency of the Bank has also grown, measured by assets per employee.



The development approach is, above all, based on identification of development needs of the employees, defining and adjusting the content of trainings, creating and implementing internal trainings, organizing internal and external trainings, measuring and improving the quality of trainings and the process of training and development of employees.

During 2020 the Human Resources Division participated in the organization of employee training, with 87% of them following the training online With the outbreak of the COVID-19 virus epidemic in the Republic of Serbia, in order to increase health safety, employees were mostly referred to trainings where no personal presence was required.

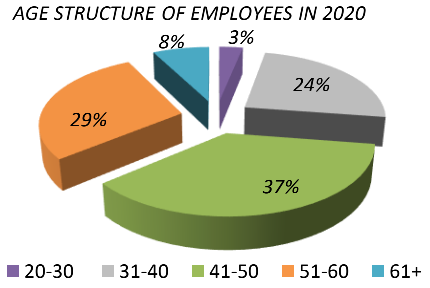
According to the criterion of importance of the topic and comprehensiveness of training in terms of the number of participants, the most important external professional trainings in 2020 were: "Mandatory continuous education of authorized representatives in bancassurance", "Training in the National Bank of Serbia for performing activities of cash processing", "Training for authorized insurance agent", "Human Resources Management in pandemic conditions." According to the criterion of importance of the topic and comprehensiveness of training in terms of number of participants the trainings that were realized by the employees from the organizational parts of the Bank in cooperation with the Human Resources Division in 2020 were as follows: „Prevention of money laundering and terrorism financing", „Knowledge of products for the employees in sub-branches", „Code of conduct", „Manners of dealing with fraudulent activities", „Typology of money laundering", „Typology of terrorism financing", „Management and improvement of communication in sub-branch", and other.

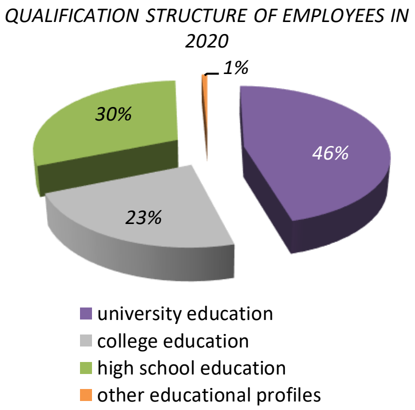
Trainings for branch employees aim to raise the awareness of the Bank's employees about the importance of adequate communication with clients and resolving disputes, i.e., complaints and objections, acting in accordance with the law and internal by-laws of the Bank in daily work with clients, in order to reduce regulatory and reputational risk for the Bank and increase customer satisfaction with the Bank's products and services.

Of total number of employees as of 31.12.2020 women account for 74.1%, while men account for 25.9%.

Since 2008, the Bank has been conducting an annual assessment of the work of employees on the basis of set annual goals, monitoring the achievement of those goals, but also the expressed abilities of employees in achieving goals. The annual assessment of the work of employees is also the basis for rewarding, career planning of employees and budget planning and the Employee Training Plan.

The principles of rewarding of employees are clearly defined by the Remuneration Policy of Employees, which was adopted by the Bank's Board of Directors at the proposal of the *Compensation Committee*, the body of the Board of Directors The goal of this policy is, not only to adequately reward employees, but also to motivate them to achieve better work results.





6.8. Balance Sheet of the Bank as of December 31 2020

No.	BALANCE SHEET ITEM	31.12.2020	31.12.2019	INDICES	% OF SHARE AS OF 31.12.2020
1	2	3	4	5	6
	ASSETS (in 000 RSD)				
1.	Cash and balances with Central bank	80.045.107	67.558.219	118,5	17,4
2.	Pledged financial assets	-	-	-	-
3.	Derivatives receivables	-	-	-	-
4.	Securities	153.776.323	138.469.551	111,1	33,4
5.	Loans and receivables from banks and other financial organizations	18.142.070	24.733.958	73,3	3,9
6.	Loans and receivables from customers	189.296.089	180.852.563	104,7	41,2
7.	Fair value changes of the hedged item	-	-	-	-
8.	Receivables for derivatives used for hedging	-	-	-	-
9.	Investments in associates and joint ventures	-	-	-	-
10.	Investments in subsidiaries	3.433.697	3.433.697	100,0	0,7
11.	Intangible assets	510.669	665.735	76,7	0,1
12.	Property, plant and equipment	6.045.330	6.437.937	93,9	1,3
13.	Investment property	1.819.507	1.857.927	97,9	0,4
14.	Current tax assets	12.237	-	-	-
15.	Deferred tax assets	-	1.074.197	-	-
16.	Non-current assets held for sale and assets of discontinued operations	130.426	196.300	66,4	-
17.	Other assets	6.216.268	7.100.359	87,5	1,4
	TOTAL ASSETS (from 1 to 17)	**459.427.723**	**432.380.443**	106,3	100,0

No.	POSITION	31.12.2020	31.12.2019	INDICES	% OF SHARE AS OF 31.12.2020
1	2	3	4	5	6
	LIABILITIES (in 000 RSD)				
1.	Liabilities arising from derivatives	-	-	-	-
2.	Deposits and other liabilities to banks, other financial institutions and the central bank	4.989.315	5.021.756	99,4	1,1
3.	Deposits and other liabilities to other customers	372.699.401	335.317.154	111,1	81,0
4.	Liabilities arising from financial derivatives held for hedging	-	-		-
5.	Changes in fair value of items that are the subject of hedging	-	-		-
6.	Liabilities arising from securities	-	-		-
7.	Subordinated liabilities	-	-		-
8.	Provisions	2.529.268	2.328.130	108,6	0,6
9.	Liabilities arising from funds intended for sale and funds from discontinued operations	-	-	-	-
10.	Current tax liabilities	-	-	-	-
11.	Deferred tax liabilities	147.400	-	-	-
12.	Other liabilities	4.975.476	13.861.230	35,9	1,1
13.	**TOTAL LIABILITIES (1 to 12)**	**385.340.860**	**356.528.270**	108,1	83,9
	CAPITAL				
14.	Share capital	40.034.550	40.034.550	100,0	8,7
15.	Own shares	-	-	-	-
16.	Profit	5.319.351	10.425.898	51,0	1,2
17.	Loss	-	-	-	-
18.	Reserves	28.732.962	25.391.725	113,2	6,2
19.	Unrealized gains	-	-	-	-
20.	Non-controlling interest	-	-	-	-
21.	**TOTAL CAPITAL (14 to 20)**	**74.086.863**	**75.852.173**	97,7	16,1
22.	**TOTAL LIABILITIES (13+21)**	**459.427.723**	**432.380.443**	106,3	100,0

6.9. Bank's 2020 Protif&Loss Statement

No.	POSITION	31.12.2020	31.12.2019	INDICES
1	2	3	4	5
	OPERATING INCOME AND EXPENSES (in 000 RSD)			
1.1.	Interest income	13.201.267	13.630.674	96,8
1.2.	Interest expenses	-1.131.977	-1.025.290	110,4
1.	**Net interest income**	**12.069.290**	**12.605.384**	95,7
2.1.	Fee and commission income	6.696.915	7.124.829	94,0
2.2.	Fee and commission expenses	-1.821.507	-1.795.833	101,4
2.	**Net fee and commission income**	**4.875.408**	**5.328.996**	91,5
3.	Net gains /losses (-) arising from change in fair value of FI	95.629	71.614	133,5
4.	Net gains/losses (-) arising from re-classification of FI	-	-	-
5.	Net gains/losses (-) from de-recognition of FI valued at fair value	157.796	353.490	44,6
6.	Net gain / loss on risk hedging	-	-	-
7.	Net gains / losses on foreign exchange transactions and effects of foreign currency clause	4.404	38.228	11,5
8.	Net gains/losses (-) arising from impairment of FI not valued at fair value through profit and loss	- 1.072.032	2.425.931	-
9.	Net gains/losses (-) from de-recognition of FI valued at depreciated value	-	-579.933	-
10.	Net gain / loss (-) arising from de-recognition of on investments in associated companies and joint ventures	-	-	-
11.	Other operating income	211.389	151.321	139,7
12.	**TOTAL NET OPERATING INCOME**	**16.341.884**	**20.395.031**	80,1
13.	Wages, salaries and other personal expenses	-5.819.946	-4.917.532	118,4
14.	Depreciation costs	-977.383	-1.005.837	97,2
15.	Other income	859.417	720.795	119,2
16.	Other expenses	-6.211.126	-6.923.772	89,7
17.	**PROFIT / LOSS (-) BEFORE TAX (1 to 16)**	**4.192.846**	**8.268.685**	50,7
18.	Profit tax	-	-	-
19.	Profit from deferred tax	120.049	1.482.667	8,1
20.	Loss from deferred tax	-1.384.134	-795.593	174,0
21.	**PROFIT / LOSS (-)AFTER TAX (17 to 20)**	**2.928.761**	**8.955.759**	32,7
22.	Net profit from discontinued operations	-	-	-
23.	Net loss from discontinued operations	-	-	-
24.	**RESULT FOR THE PERIOD PROFIT / LOSS (-) (21 to 23)**	**2.928.761**	**8.955.759**	32,7

7. INVESTMENTS AIMED AT PROTECTING THE ENVIRONMENT

Social and environmental risk management policy

The Bank respects the highest international standards and values in the creation of financial products and services, develops and implements activities in the field of environmental protection and protection of human and labour rights. The Environmental and Social Risk Management Procedure defines the standards for identifying, measuring and assessing, monitoring and managing environmental and social risks in the process of granting and monitoring loans. The aim of the environmental risk management system is to introduce this system in the process of credit activity and credit monitoring, thus increasing the possibilities for acceptable and sustainable economic development from the point of view of environmental protection and minimizing the possibility of occurrence of environmental and socially negative impacts.

The Bank has also defined a procedure for resolving and responding to complaints regarding the direct or indirect impact of the Bank's business activities on physical and the social environment.

The Bank requires customers to operate in accordance with applicable environmental, health and safety regulations, EU standards and other international good practice standards, where applicable. In order to consistently apply the standard, the Bank applies a list of activities, projects or activities that are excluded from financing or operate in accordance with defined limits for individual activities.

At the beginning of 2020, the Bank defined the possibility of financing highly controlled persons engaged in the activities of production and trade in weapons and military equipment, i.e. dual-use goods.

Environmental and social risk management approaches include two levels of management: at the level of individual loan and at the level of the entire portfolio. For each client's activity, the Bank defines the level of risk, namely, the category of risk, from the aspect of environmental and social impact.

In the process of granting the loan, in accordance with the legislation relevant for environmental protection, the Bank categorizes the client's requirements from the aspect of environmental and social impact using the List of categorization of environmental and social risks.

The Bank monitors the portfolio structure, that is, the participation of risk categories from the aspect of environmental and social impact. At the monthly level, the Credit Committee, the Executive Board, the Audit Committee and the ALKO Committee are reported, and at the quarterly level the Board of Directors is informed about the environmental and social risk exposures. In addition, the Bank continuously monitors emergency events with its customers that may have adverse impact on the environment, health or safety or the community as a whole, and regularly informs the Bank's governing bodies.

8. SIGNIFICANT EVENT AT THE END OF BUSINESS YEAR

From December 31, 2020 to the end of February 2021, one extraordinary session of the General Meeting of Shareholders of the Bank was scheduled and held (January 28, 2021).

Decisions listed below were adopted at the GMS referred to above:

- -Decision on amendments to the Articles of Association of Komercijalna banka ad Beograd.
- -Decision on Release from Duty of the Chair of the General Meeting of Shareholders of Komercijalna banka ad Beograd.
- -Approval of the General Meeting of Shareholders of the Bank to Increase the ownership share in Komercijalna banka ad Banja Luka to 100%.
- -Decision on determining the remuneration of the members of the Bank's Board of Directors and other committees of the Bank.

The first session of the Board of Directors of the Bank in the new convocation was held on January 5, 2021, after NLB d.d. Ljubljana, Slovenia completed the takeover of Komercijalna banka a.d. Beograd the Bank in December 2020.

In accordance with the Decision of the Board of Directors of the Bank, and after obtaining the consent of the National Bank of Serbia to appoint members of the Executive Board of the Bank, Vlastimir Vuković, as President of the Executive Board of the Bank and Dejan Janjatović, as Deputy President of the Executive Board of the Bank officially took office and took over the management of Komercijalna banka a.d. Beograd on February 4, 2021.

Since February 4, 2021, the Executive Board of the Bank has been working in the following composition:

NAME AND SURNAME	FUNCTION
Vlastimir Vuković	Chairman
Dejan Janjatović	Deputy Chairman
Dragisa Stanojević	Member
Miroslav Perić, PhD	Member
Pavao Marjanović	Member

The new members of the Board for Monitoring the Bank's operations (the Audit Committee were) were appointed in January 2021, in line with the Decision of the Board of Directors of the Bank).

Since January 2021, the Bank's Business Monitoring Committee (the Audit Committee) has been working in the following composition:

NAME AND SURNAME	FUNCTION
Dragan Đuričin	Chairman
Archibald Kremser	Member
Igor Zalar	Member

The description of events after the end of the business year has also been presented in the item Events after the balance sheet date in the Notes to the Financial Statements for 2020.

9. PLAN OF FUTURE DEVELOPMENT OF THE BANK

The main pillars of the Bank's development strategy over the next three-year period are [90]:

- increase in loans to customers (as a key aspect of future profitability in a situation of reduction of interest rates on securities),
- maintaining the quality of the loan portfolio in order to keep the low level of NPL, as well as the cost of credit risk,
- improvement - changing customer structure - targeting customers based on demographics and standards (taking into account the development of innovative products, primarily digitalisation); in addition to large companies, the Bank's focus will be on the segment of public companies at the national and local levels; more extensive lending for special-purpose real estate development projects - project financing;
- growth of the share of fee and commission income in relation to interest income (higher focus of the Bank on fee and commission income due to the tendency of falling interest rates and the application of digitalization and new products in order to attract new clients),
- control of operating expenses and further improvement of business efficiency (through stricter financial discipline) with the aim of reducing operating expenses according to the generated income over the entire planning period (CIR),
- maintaining an adequate capital position, with the payment of dividends based on the planned/projected profit in the next three-year period.

Retail Banking

In retail banking segment, for the coming period the Bank is planning numerous improvements with the aim of improving business in all segments.

Process improvements:

- automation of decision-making processes in all segments;
- automation of contract signing by two-factor email and SMS authentication;
- further complete centralization of back office activities in order to relieve the branches through changes in business processes and development of application solutions.

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Business network:

- operation of branches according to service and sale centre model;
- introduction of a specialist to work with the most significant micro clients;
- business network optimization (opening, merging and closing of branch offices in accordance with market potential).

Employees:

- ensuring the optimal number and structure of employees in the branch offices through necessary hiring of younger staff;
- adoption of a policy of rewarding employees in sales in accordance with the achieved results.

One of the Bank's key strategic goals for the coming period is to maintain and increase its customer base while improving its structure in all segments. The focus will be on the acquisition of better performing clients through offering new, innovative products and services, and an individual approach to each client's needs. The aim is to further improve the loan approval process, so that clients can receive funds as soon as possible (approval in the branch office, signing of the contract without coming to the branch office, lending through digital branch office...).

We plan to increase lending activity in all segments while maintaining a similar portfolio structure (40% -42% share of housing loans in the portfolio). The planned growth of loans should lead to the growth of market share in all segments and products.

Cash loans will continue to be a major driver of retail lending growth due to high profitability and strong demand, with the aim of increasing market share in the coming years. Growth in housing loans is also expected due to favourable lending conditions, demand growth, adequate supply of new apartments and expected growth in average wages. Growth is also planned in terms of the micro and agro segment both through regular offerings and in cooperation with state programs.

In the deposit segment, the Bank's objective is to maintain a leading position in terms of the volume of raised retail foreign currency savings.

The strategic goal in 2021 is to increase the number of clients who actively use electronic and mobile banking.

Conclusion

As a result of all planned activities, we expect that in 2021, net income from interest and fees will increase, which will allow retail businesses to continue the multi-year trends of business growth and increase profitability. In addition, retail banking is the most important generator of achieving goals and net income at the Bank level.

Corporate Banking Operations

Future plans for the corporate banking operations are listed below:

- Increasing efficiency in the process of approving loans to companies,
- Maintaining the quality and growth of the credit and off-balance sheet portfolio,
- Maintaining profitability at the level of projected values,
- Introduction of a "pre-approval" process for clients of eligible credit rating groups,
- Continuation of lending to the segment of public companies at the state and local level and local self-government (participation in tenders and public invitations),
- Increasing the volume of loans granted for project financing in the field of real estate development ("project financing"),
- Participation of the Bank in "syndicated" lending to the private and public sector in cooperation with other banks,
- The Bank will remain opened to participate in the realization of higher credit requirements from clients from the surrounding markets in the following period through "cross border" financing. These activities will be performed by the Bank in coordination with the parent bank in Slovenia,
- Priority extending of loans from the Guarantee Scheme of the Government of the RS,
- Maintaining the growing trend of documentary business - retaining existing clients with predefined limits for guarantees and letters of credit for 2021 and acquiring new clients,
- Factoring (purchase of short-term receivables from customers) and Reverse factoring

(purchase of short-term liabilities of the client to the supplier),
- Investment banking,
- During 2021, the Bank expects a stable business environment, forecasts of growing tendencies in the economic activity,
- The expected GDP growth will be predominantly influenced by the operations of economic entities from export-oriented sectors, as well as under the influence of funds from FDI,
- Domestic demand is expected to grow due to the announced increase in public sector wages and pensions.
- Continued realization of capital infrastructure projects at the state and local level in Serbia and in the region and steady trend of project development in construction, followed by investments in equipment.
- The growth of the banking sector is expected to continue (total net assets, loans and deposits) - growth of banks' lending activity to the corporate sector, accompanied by stabilization and a slight increase in lending interest rates.

Transactions with Financial Instruments

In 2021 and the following years, the Securities Sector plans to further develop and improve operations in the capital market through:
- further digitalization of customer services:
    - expansion of the application "Kombank trader" so as to issue orders via mobile phones and tablets;
    - facilitated money transfers to dedicated accounts of individuals through E-bank;
    - improvement of "back office" application services;
- strengthening investment banking operations in the area of new issues of securities, agents, guarantors and sponsors of issues, mergers, acquisitions, investment consulting and portfolio management;
- strengthening the client base in the field of voluntary pension and investment funds;
- introduction in the investment offer new types of financial instruments on foreign stock exchanges, within the framework of the effective regulations.

Profitability

In order to increase future profitability, the Bank plans to [91]:
- realize the growth of loans to customers as a key aspect of profitability in the conditions of falling interest rates on securities,
- increase granting loans in SME clients segment,
- increase profitability through „dinarization“ of the loan portfolio,
- achieve growth in fees and commission income (payment operations, POS terminals, guarantee operations) in order to respond to falling interest rates and interest income,
- more efficient control over operating business expenses.

The banking sector of Serbia was marked by a decrease and stabilization of both lending and debits interest rates, especially in the last two years. As a result, there was a significant decrease and stabilization of the interest margin. No further significant reductions in lending and deposit interest rates are expected in the future, after the pandemic of the COVID-19 virus in 2020 and anticipation of the economic recovery.

In the retail sector, a slight increase in deposit interest rates is also expected. In order to maintain and increase profitability in the coming period, the Bank will make efforts to increase income from fees and commissions. The most important sources of fees will be payment cards, domestic payment transactions and individual retail clients' current accounts. It is expected that the development of digitalization of business, eBank, mBank and other related services and products will contribute to the growth of fee income.

In the corporate sector, the growth of profitability in the future will be possible mainly through the growth of non-interest income from fees generated from payment transactions and from guarantee products.

[91] Revised Strategy and Business Plan of Komercijalna Banka ad Beograd for the period 2020-2022

In the future, in the period of economic recovery after the COVID-19 virus pandemic, special attention will be paid to the control of operating costs in the Bank, which should result in lower "cost/income" ratio.

In the future, after the end of the period of economic recovery and international trade and transport, the Bank does not expect significant impairment expenses.

As a result of all the above, the projections are set for the next three-year period in terms of the Bank's profitable operations and adequate rates of return on assets and capital.

Asset Management *(„Treasury“)*

Below is the Bank's strategy in the area of asset management in the future:

- active management of the entire securities portfolio and
- Contribution to profitable operation of the Bank.

As a result of the lack of quality demand in the previous period, a significant part of the Bank's assets is in highly liquid and risk-free securities (bonds of the Republic of Serbia). The Bank does not plan further significant growth of investments in securities, but on the contrary, we have plans to gradually transfer the funds from securities to retail and corporate loans

The volume of retail and corporate deposits with insufficient quality of demand for loans reduced the Bank's need to use funds from foreign credit lines. The Bank will take new credit lines only if there is an interest of creditworthy clients for loans with the purpose that may be funded by these lines, respecting the criteria of their competitiveness (margin, maturity...) in relation to other available sources of the Bank. .

On the basis of all of the above, the Bank's objectives in terms of asset management are to have adequate liquidity reserves at all times in the form of highly liquid assets that can be quickly converted to cash. The excess liquid assets will be invested in low-risk securities or in other first-class financial institutions for the purpose of obtaining adequate income. The development of innovative products, as well as the operations of buying and selling foreign currencies in the money and capital markets, will also provide an adequate amount of net fee income.

Deposit Potential

Key sources of deposit potential of the Bank in the coming period will be:

- retail foreign currency savings - remains the dominant source of financial resources in the future,
- Deposits of legal entities and financial institutions.

During a more extensive period of time the Bank has been standing out by the amount of retail foreign currency savings in the banking sector. The Bank's strategic commitment is to continue to be a leader in this segment while striving to optimize the cost and structure of these funding sources. The Bank plans to continue to base its retail foreign currency savings on a large number of relatively small deposits, that is, to have a large number of depositors with individually small cash deposits.

Corporate deposits have been on a stable level over a long period of time, and it is expected that new clients, loan beneficiaries, will transfer their deposits to the Bank as well, which will result in an increase in corporate deposits.

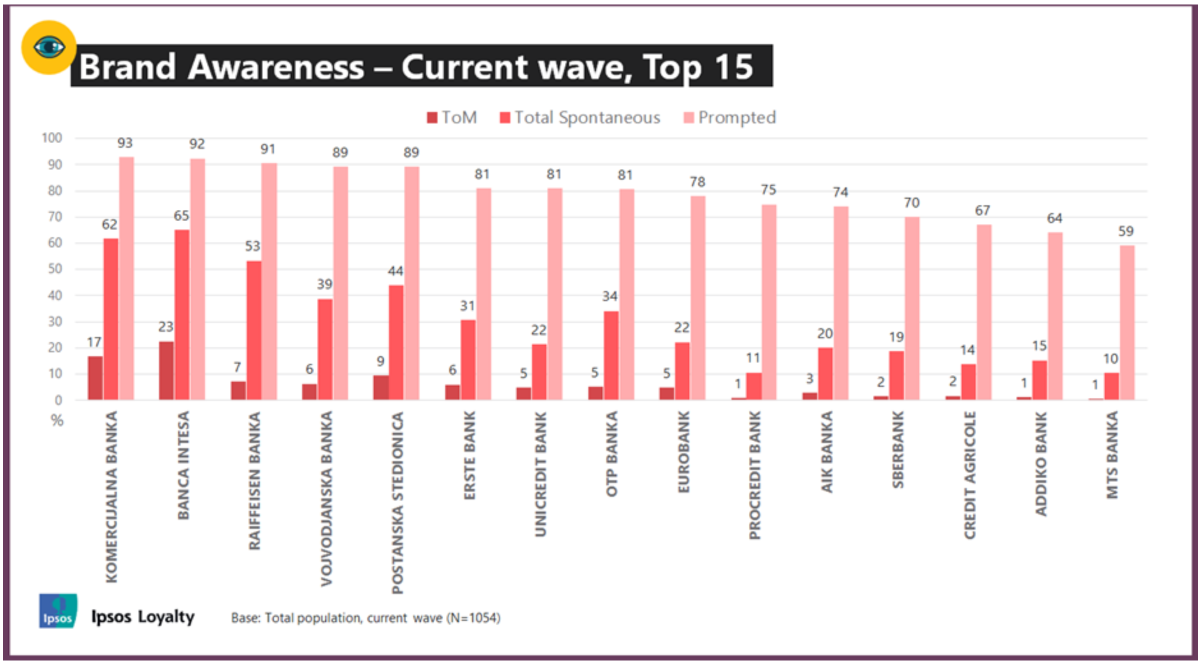
10. RESEARCH AND DEVELOPMENT

Komercijalna Banka monitored the developments in the financial market closely and up-to-date and successfully adapted to the conditions and changes in the financial market in 2020, in order to maintain its leading position, as presented by the conducted research.

The Bank's market position as a brand, its products and services were further examined in 2020 through the banking Omnibus conducted by the "IPSOS" research agency specialized in this type of research. Research shows that the Bank has been holding one of the leading positions in the public awareness for a long time, measured by the criteria of brand recognition, quality and satisfaction with the products and services used by customers. All research results are published on the Bank's internal portal so that targeted groups are introduced to these results and thus further strengthen the Komercijalna banka brand.

The latest banking Omnibus report (November 2020) shows that, in the opinion of the respondents, Komercijalna banka was ranked first by the brand recognition criteria among the top 15 banks in Serbia.

Bank Brand Awareness in Serbia (Omnibus Banking, November 2020)



11. SHARE REPURCHASE

As of December 31, 2020 the Bank has had no own shares, nor held any own shares during 2020.
Also, the Bank does not intend to acquire its own shares in the future.

12. FINANCIAL INSTRUMENTS SIGNIFICANT FOR THE ASSESSMENT OF FINANCIAL POSITION

At the end of 2020, the year of the COVID-19 pandemic, the state of emergency, the blockade of international movement and transport, the following balance sheet positions are of paramount importance for an adequate assessment of the Bank's financial position at the end of:

• On the assets side of the balance sheet:

- ✓ Loans and receivables from customers,
- ✓ Loans and receivables from banks and other financial organizations,
- ✓ Securities,
- ✓ Cash and funds held with the Central Bank.

• On the liabilities side of the balance sheet:

- ✓ Deposits and other liabilities to other customers,
- ✓ Capital.

Loans and receivables from customers, banks and other financial organizations amounted to RSD 207,438.2 million at the end of 2020 and accounted for 45.2% of total balance sheet assets. The sum of the mentioned two balance sheet positions amounted to RSD 205,586.5 million and accounted for 47.5% of the Bank's total assets at the end of 2019. During 2020, total loans and receivables increased by RSD 1,851.6 million.
Loans and receivables from legal entities reached the amounted of RSD 189,296.1 million and increased by RSD 8,443.5 million compared to the end of 2019. The growth was achieved despite the efforts of the NBS to postpone or facilitate payment of clients' liabilities to banks through three moratoriums implemented during 2020.

Loans and receivables from banks and other financial organizations reached the amount of RSD 18,142.1 million at the end of 2020, which made 3.9% of balance sheet assets, and decreased by RSD 6,591.9 million y-o-y.

Especially during the 2020 pandemic, the Bank has attached great importance to risk management policy, given the fact that loans and other investments account for approx. 50% of total balance sheet assets. A special effort of the Bank's management was to monitor credit risk. During 2020, as in previous years, the Bank's loan portfolio was secured with an appropriate amount of impairment provisions and reserves.

Investments in securities amounted to RSD 153,776.3 million at the end of 2020, which was 33.5% of total assets. At the end of 2019, the same position amounted to RSD 138,469.6 million, which is an increase of securities investments by RSD 15,306.8 million or 11.1%. Securities mostly consist of securities of the Republic of Serbia - government bonds in RSD and EUR.

Cash and funds with the central bank reached RSD 80,045.1 million at the end of 2020, which accounted for 17.4% of assets. Compared to the beginning of the year, cash and assets with the central bank increased by RSD 12,486.9 million, or 18.5%. The highest share of this position consists of funds on the drawing account (31.0%) and funds allocated with the National Bank of Serbia in the form of foreign currency required reserves (39.5%). Y-o-y biggest difference was the increase in excess liquidity due to reduced corporate loans and lower repurchase transactions.

Having in mind the structure of assets, it can be stated that credit and other risk type sensitive assets was maintained at an optimal level with a reasonable risk-taking policy. By applying considerably more restrictive way of assessing the credit risk the Bank's management ensured the protection of the loan portfolio.

Deposits and other liabilities to banks, other financial organizations, the central bank and other customers amounted to RSD 377,688.7 million at the end of 2020, which was 82.2% of total balance sheet liabilities. Deposits and other liabilities to other customers account for 81.1% of balance sheet liabilities and increased by RSD 37,382.2 million compared to the beginning of the year.
Deposits and other financial liabilities to banks, other financial organizations and the central bank accounted for 1.1% of balance sheet liabilities and decreased by RSD 32.4 million. The Bank's deposit potential predominantly lies in retail foreign currency deposits. At the end of 2020, retail foreign currency savings amounted to EUR 1,819.9 million, with large number of smaller deposits remained dominant structure-wise. The confidence of depositors enabled the Bank to keep one of the leading positions within the banking sector of the Republic of Serbia in terms of the volume of collected foreign currency savings, image and recognition. Despite the stagnation of interest rates on retail savings compared to previous years, retail foreign currency deposits recorded a y-o-y increase of EUR 46.9 million at the end of 2020.

The position of other liabilities, accounted for 1.1% of liabilities at the end of 2020, and decreased by RSD 8,885.8 million, mainly due to the payment of dividends to the Bank's shareholders for fiscal years 2014, 2015, 2016, 2017, 2018 and 2019 and payment of bonuses from generated profits to employees.

Total capital of the Bank at the end of 2020 amounted to RSD 74,086.9 million, which is 16.1% of total liabilities. Total capital decreased by RSD 1,765.3 million or 2.3% at the end of 2020 compared to 2019. The amount of capital was also influenced by the Decision on the Distribution of 2019 Profits. During 2020, the Bank's reserves increased by RSD 3,341.2 million, despite business difficulties caused by the COVID-19 pandemic.
The Bank achieved a capital adequacy ratio of 32.50% at the end of 2020, which was above the statutory minimum.

From the aspect of required stability, security and desired profitability, the Bank also managed to provide necessary diversification of business funding sources during 2020.

13. RISK MANAGEMENT

13.1. Objectives and Policies of Financial Risk Management

Risk management is a key element of business management, since risk exposure arises from all business activities, as an inseparable part of the banking business, which is managed through identifying, measuring, assessing, monitoring, controlling and mitigating, i.e. establishing risk limits, as well as reporting in in line with strategies and policies.

The Bank has put in place a comprehensive and reliable risk management system that includes: risk management framework and risk statement, strategies, policies and procedures for risk management, methodologies for managing individual risks, appropriate organizational structure, effective and efficient process of managing all risks to which the Bank is, or may be exposed in its operations, an adequate internal control system, an adequate information system and an adequate internal capital adequacy assessment process. Also, the Bank's Recovery Plan is integrated into the risk management system, as a mechanism for early identification of a situation of severe financial disruption in which the Bank can take measures, that is apply defined recovery options in order to prevent entry into the early intervention phase with an active participation of a regulator or improvement of an already deteriorated financial condition. The risk management framework is a formalization of the Bank's propensity for materially significant risks, which entails defining objectives, tolerances and limits for all materially significant risks that can be quantified. The risk management strategy and the capital management strategy and plan set the following goals within the risk management system: minimizing the adverse effects on the financial result and capital while respecting the defined frameworks of the acceptable risk tolerance limits, maintaining the required level of capital adequacy, developing the Bank's activities in line with the business strategy and opportunities and market development in order to create competitive advantages, diversify the risks to which the Bank is exposed, maintain the NPL share in total credit the level above the defined limit, the maintaining concentration risk ratios based on exposure to certain types of products below the regulatory prescribed level, maintaining liquid assets coverage ratio above the regulatory prescribed level and the internal limits. The Bank constantly monitors all announcements and changes to the regulatory framework, analyses the impact on the level of risk and takes measures to timely align its operations with the new regulations.

The Bank has carried out compliance with the new regulations, especially in the part of the regulatory framework which regulates measures to preserve the stability of the financial system, as well as economic support to mitigate the consequences of the COVID-19 pandemic by the National Bank of Serbia and the Ministry of Finance by delay in repayments - moratorium, guarantee scheme, etc.) in the conditions caused by the COVID-19 pandemic. Through a clearly defined process of introducing new and significantly modified products, services and activities related to processes and systems, the Bank analyses their impact on future risk exposure in order to optimize its revenues and costs for the assessed risk, as well as minimize all potential adverse financial effects on the Bank's performance result. A more detailed overview of the Bank's risk management objectives and policies has been presented in the Notes to Financial Statements.

Credit risk exposure policy

In order to hedge against credit risk exposure, the Bank applies credit risk mitigation techniques by obtaining acceptable collateral as a secondary source of loan collection. The Bank strives to do business with clients of good creditworthiness, assessing it at the time of application and through regular monitoring of debtors, loans and collateral, in order to timely undertake appropriate activities in the collection process. The types of collateral for receivables depend on the credit risk assessment of the debtor, and are determined in each specific case individually, obtaining the proper collateral after the conclusion of the contract and before loan disbursement.

The Bank has regulated the evaluation of loan protection instruments and the management of these instruments by internal bylaws.

The Bank pays special attention to marketability and adequate evaluation of collateral, whereby, when assessing the value of collateral, it engages certified appraisers, in order to minimize the potential risk of unrealistic evaluation, and real estate, goods, equipment and other movables that are used as collateral must be insured with an insurance company acceptable to the Bank, with insurance policies assigned to the Bank.

In order to protect against changes in the market values of collateral, the estimated value is adjusted for defined percentages of impairment depending on the type of collateral and the location of the real estate, which are regularly reviewed and revised.

The Bank pays special attention to collateral monitoring and undertakes activities to provide new evaluations, but also to obtain additional collateral, primarily regarding the clients with identified business problems, but also the clients whose collateral exposure coverage is reduced due to a decline in the value of collateral acquired.

For the purpose of adequate risk management, the Bank conducts activities of credit risk analysis when approving the loans and through establishing a system of monitoring, preventing and managing risk loans, including adequate identification of potentially risky clients (Watch List), mitigates credit risk of the clients with the status specified above, as well as through taking measures and actions in order to protect the Bank's interests and prevent adverse effects on the Bank's financial result and capital.

During 2020, the Bank continued to improve its risk management system, taking into account changes in the regulations of the National Bank of Serbia, the requirements of the external auditor, as well as the new situation caused by the COVID-19 virus pandemic. The Bank revised the Risk Management Strategy (reduced the maximum acceptable level of NPLs, repeatedly updated the targets, tolerances and limits for the most important risk parameters, defined the maximum acceptable share of exposure based on foreign currency loans and indexed in foreign currency, as well as in total loans of the Bank, and by retail and corporate customers' segments), supplemented and changed procedures and methodologies in order to comply them with changes in domestic and international regulations, improved business practices, and changed conditions caused by the COVID-19 virus pandemic, which are completely different from previous business circumstances encountered by the real and financial sectors.

In 2020, in the current conditions caused by the COVID-19 pandemic, the Bank was focused on maintaining the quality of the loan portfolio by regularly analysing the impact of the pandemic on the decline in business activities, decreasing financial potential of clients from the most vulnerable industries, resolving problems of the clients that have already been indicated as non-performing, and performing the activities aimed to reduce bad loans. Also, in accordance with the Decision of the National Bank of Serbia on Accounting Write-Off of Bank Balance Sheet Assets, the Bank continued to transfer 100% impaired loans from on-balance sheet to off-balance sheet records. The Bank's activities to maintain the quality of the loan portfolio in the conditions caused by the COVID-19 pandemic resulted in a slight increase in the level of NPL ratios.

The level of credit risk impairment for the PL portfolio at the end of 2020 is largely the consequence of changed expectations of macroeconomic indicators for the next period due to the COVID-19 pandemic, as well as expectations regarding the effects of the pandemic on the real and retail sector, which can be realized through worsening of credit risk levels with partial mitigation of that risk by applying the set of the support measures adopted by the Government of the Republic of Serbia and the National Bank of Serbia. For these reasons, the Bank paid special attention to the analysis of clients whose activities are oriented towards industries that are particularly exposed to the effects of the potential crisis caused by the COVID-19 pandemic, which resulted in an increase in Level 2 - PL clients with identified worsening credit risk. As a result of all the above, the Bank made additional adjustments of the level of impairment provisions for credit risks, which is reflected in the allocation of an additional protective layer of provisions.

During 2020, the National Bank of Serbia adopted decisions prescribing a delay in the repayment of debtors' liabilities (moratorium) in conditions of potential risks caused by the health emergency in the country and matched the existing regulations in the field of risk management of banks. In conducting its business, the Bank has also complied with these regulatory adjustments in a timely manner.

Also, the Government of the Republic of Serbia passed a decree on the guarantee scheme to support the financing of business clients, which anticipated lending in the amount of EUR 2 billion, thus partially allocating credit risk to the state.

The Bank applies IFRS 9 standard and in accordance with the stated standard calculates impairment of balance sheet assets and probable loss on off-balance sheet items. The Bank applies the concept of "expected losses" by incorporating the impact of the expected movement of macroeconomic factors on the future trend of the probability of default status occurrence, based on statistically proven inter-dependencies, wherewith in 2020 the Bank increased the coverage of clients of level 2 and 3, through individual analyses of the customers who operate in activities at risk, which have resulted in an increased expectations of credit risk, i.e. which have recorded a decline in business activities and a deteriorated financial condition. Also, an additional layer of impairment provisions was introduced for the portfolio of PL clients based on expert assessments, given that the Bank's previous experience differs significantly from the current conditions caused by the COVID-19 pandemic. The inclusion of additional expert assessments in the expected movement of the default rate is based on the assumption that the crisis caused by the pandemic effects will result in a combination of V-shaped and U-shaped curves, these being distinctive of the greatest effects during 2021 (further deepening of the crisis and recession effects), followed by a slight recovery in 2022, which would continue in 2023. The portfolio is differentiated into three levels that monitor client status (Level 1 - PL clients with no identified credit risk deterioration, Level 2 - PL clients with identified credit risk deterioration - measured by a set of defined criteria, Level 3 - NPL clients), with defined criteria for transition of higher-level clients to lower levels. Also, in accordance with IFRS 9, the Bank calculates impairment for exposures to the Republic of Serbia and the National Bank of Serbia.

The real increase in impairment provisions (income statement) in 2020 was caused by the transition of individual clients to level 3 based on the assessment of the impaired financial potential for regulating liabilities to the Bank under the influence of the COVID-19 pandemic, but with a satisfactory level of loan collateralisation and expected collection of a portion of receivables from real flows in the next year, followed by an increase in PL corporate and retail clients, due to the transition of some clients from level 1 to level 2 based on the identified deterioration of credit risk due to significant pandemic impact on certain economic activities, with a slight increase of expectations of the default status resulting from change in anticipation of macroeconomic tendencies in the form of an additional protective layer of impairment provisions. On the other hand, impairments in the balance sheet were reduced based on the transfer of 100% of impaired loans from the on-balance to off-balance sheet records.

13.2. Exposure to Risks (Price, Credit, Liquidity and Cash Flow Risk) With Risk Management Strategy and Assessment of Its Efficiency

In its operations the Bank is particularly exposed to the below listed types of risks:

1. Credit and related risks.
2. Liquidity risk.
3. Market risk.
4. Interest rate risk in the banking book.
5. Operational risk.
6. Investment risk.
7. Exposure risk.
8. Country risk as well as other risks that may appear in the regular operation of the Bank.

Credit risk is the possibility of negative effects on the Bank's financial result and capital due to the debtor's default in fulfilling the financial obligations to the Bank.

Credit risk is conditioned by the debtor's creditworthiness, its orderliness in fulfilling its obligations to the Bank, and the quality of the collateral. The acceptable level of exposure to the Bank's credit risk is in accordance with the defined Risk Management Framework and the Risk Management Strategy and depends on the structure of the Bank's portfolio, based on which it is possible to limit the adverse effects on the Bank's financial result and capital while minimizing capital requirements for credit risk, counter-party risk, the risk of impairment of purchased receivables, the risk of settlement/delivery based on free deliveries and in order to maintain capital adequacy at an acceptable level. The Bank manages credit risk at the level of the client, group of related parties and the entire credit portfolio. The Bank approves loans to clients (legal and natural persons), that are estimated as being creditworthy, through performed analysis, that is, quantitative and/or qualitative measurement and assessment of credit risk and financial condition of the borrower. The process of measuring credit risk is based on measuring the level of risk of individual loans on the basis of the internal rating system, as well as on the application of regulations of the National Bank of Serbia, which requires the classification of each loan on the basis of prescribed criteria.

By monitoring and controlling the portfolio as a whole and by individual segments, the Bank makes comparisons with previous periods, identifies trends and causes of changes in credit risk levels. It also monitors asset quality ratios (NPL movement, NPL coverage by impairment provisions, etc.), as well as exposure to regulatory and internally defined limits. By the Decision on Concentration Risk Management based on the Bank's exposure to certain product types, as of January the 1st 2019, the National Bank of Serbia also prescribed the obligation to monitor the concentration risk, i.e. exposure to product groups, such as exposures based on cash, consumer and other loans granted to retail clients with contracted maturity exceeding 8 years in 2019, or further reduction thereof in the next two years. Also, monitoring and reporting about the level of credit indebtedness of retail clients (DTI ratio) was introduced. These regulations have been somewhat relaxed by the amendments made by the National Bank of Serbia in order to comply them with the current business circumstances, caused by the COVID-19 virus pandemic. The loan quality monitoring process enables the Bank to assess potential losses as a result of the risks to which it is exposed and to take appropriate corrective measures. On the other hand, the Bank does not invest in high-risk investments such as investments in potentially profitable projects, which, however, involve high risk, in high-risk portfolio investment funds etc.

Liquidity risk represents the possibility of adverse effects on the Bank's financial result and capital due to the Bank's inability to meet its obligations, resulting from the withdrawal of existing funding sources and the inability to acquire new funding sources - funding source liquidity risk, as well as difficult conversion of assets into liquid assets due to market distortions - market liquidity risk.

Liquidity risk is manifested through the Bank's difficulties in meeting due liabilities in the event of insufficient liquidity reserves and inability to cover unexpected outflows of other liabilities. In its operations, the Bank respects the basic principles of liquidity, obtaining a sufficient level of liquid assets to cover liabilities arising in the short term, that is, respects the principle of solvency, by forming an optimal structure of own and borrowed funding sources and by accumulating a sufficient level of liquidity reserves so as to avoid threats to the planned return on equity.

Liquidity risk is also manifested in the Bank's inability to transform certain parts of assets into liquid assets in the short term. The Bank analyses the funding sources liquidity risks and market liquidity risk. The problem of liquidity from the aspect of funding sources refers to the structure of liabilities, i.e. liabilities, and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. The funding liquidity risk actually represents the risk that the Bank will not be able to meet its obligations due to the withdrawal of unstable funding sources, i.e. the inability to obtain new funding sources. On the other hand, liquidity risk is also manifested through the deficit of liquidity reserves and difficult or impossible acquisition of liquid assets at acceptable market prices. During 2020, the Bank complied with regulatory and internally defined limits, as well as the Risk Management Framework, and liquidity risk was within controlled limitations in the conditions of the Covid-19 pandemic and temporary measures of the National Bank of Serbia to preserve the stability of the financial system. The Bank actively takes preventive measures in order to minimize exposure to liquidity risk.

Market risk represents the possibility of negative effects on the Bank's financial result and capital due to changes in market variables and includes foreign exchange risk for all banking business activities and price risk of the trading book positions.

The Bank is exposed to ***foreign exchange risk*** manifested through the possibility of adverse effects on the financial result and capital due to exchange rate volatility, ratios, changes in the value of the domestic currency against foreign currencies, or changes in the value of gold and other precious metals. In order to minimize foreign currency risk exposure, the Bank diversifies the currency structure of its portfolios and the currency structure of its liabilities, matching open positions by individual currencies, while respecting the principles of maturity transformation of assets. During 2020, the Bank complied with the foreign exchange risk regulatory ratio, which was expressed as 20% of regulatory capital, as well as with significantly more conservative internally defined limits, that is, with the defined Risk Management Framework.

Interest rate risk represents the risk of adverse effects on the Bank's financial result and equity arising from banking book positions due to adverse changes in interest rates. The Bank identifies the causes of the current and assesses the future factors of interest rate risk exposure in a timely manner. Exposure to this type of risk depends on the ratio of interest-sensitive assets to liabilities. Interest rate risk management aims to maintain an acceptable level of exposure to interest rate risk in terms of impact on the financial result and economic value of equity, by pursuing an adequate policy of maturity adjustment of the interest rate repricing period and matching funding sources with loans according to the level of interest rate and maturity structure. During 2020, the Bank complied with regulatory and internally defined limits, as well as the Risk Management Framework.

Operational risk is the risk of possible adverse effects on the financial result and capital of the Bank due to failures in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the bank, as well as due to unforeseen external events. Operational risk also includes legal risk, which is the risk of negative effects on the financial result and capital of the Bank based on court or out-of-court proceedings. Measurement, i.e. assessment of the Bank's operational risk is performed through quantitative and/or qualitative assessment of the identified operational risk. The Bank measures its exposure to operational risks through event records, monitoring of key risk indicators and self-assessment. The Bank takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, monitoring of key risk indicators that are an early warning for signalling changes in the Bank's risk profile, application of adequate and reliable information system, business practices and optimization of the Bank's business processes. In order to minimize the legal risk and its impact on the financial result, the Bank continues to improve its business practice in the part of timely provisioning on the basis of lawsuits against the Bank, and in accordance with the assessment of future expected loss on that basis**.**

The Bank also conducted an assessment of operational risk exposure in the context of the Covid-19 virus pandemic and identified operational risks. In order to mitigate the negative effects, appropriate risk mitigation measures have been defined for the identified operational risks.

Investment risk of the Bank represents the risk of investing in other legal entities and in fixed assets and investment property. In accordance with the regulations of the National Bank of Serbia, the level of permanent investments is monitored and notified to the bank's bodies and committees. This ensures that the Bank's investment in one non-financial sector entity does not exceed 10% of the Bank's capital, and that the Bank's investment in non-financial sector entities and in the Bank's fixed assets and investment property does not exceed 60% of the Bank's capital.

Large ***exposure of the Bank*** to one person or group of related parties, including persons related to the Bank, is an exposure that amounts to at least 10% of the Bank's capital. During 2020, the Bank complied with regulatory and internally defined exposure limits.

Country risk is the risk related to the country of origin of the person to which the Bank is exposed, that is, the risk of the possibility of adverse effects on the Bank's financial result and capital due to the Bank's inability to collect receivables from the debtor for reasons due to political, economic or social circumstances in the debtor's country of origin. The Bank's exposure to country risk is at an acceptable level.

A detailed presentation and explanation of the risks to which the Bank is exposed in its operations is presented in paragraph 4. Note to the financial statements.

14. SOCIALLY RESPONSIBLE OPERATION

A special contribution to preserving and increasing the value of the corporate image was made by activities in the field of corporate social responsibility (CSR), which the Bank carefully selected, supported and actively cooperated with its partners. The bank welcomed all babies born on January 1 with a gift of RSD 20,000 savings. The action for equipping hospitals and maternity hospitals "Together for babies" continued, within which an incubator was donated to the General Hospital in Vršac at the beginning of the year. Regular activities in the field of social responsibility were interrupted by the emergency situation in the country caused by the corona virus pandemic. The Bank responded to this challenge with procedures that enabled business in this situation, as well as by directing funds to extraordinary purchases and donations of medical materials and equipment for hospitals. At the beginning of the pandemic, RSD 8 million was donated to the Republic Health Insurance Fund for the purchase of respirators, and in cooperation with the B92 Fund, an incubator was urgently donated for the maternity hospital Dragiša Mišović which takes care of pregnant women and new-borns diagnosed with COVID-19. In the same donation, 100 non-invasive masks were donated to this hospital, which replace the intubation of patients when using respirators and significantly facilitate the treatment process for patients. Procurement of several thousand masks for the needs of the Infectious Diseases Clinic in Belgrade was financed at the end of the year, as well as the procurement of a 4D ultrasound device for the Gynaecology and Obstetrics Clinic Narodni Front.

For its engagement and assistance to medical institutions in the fight against the Covid-19 virus pandemic, Komercijalna Banka received an award given by the Serbian Philanthropic Forum on the occasion of the National Day of Giving.

All implemented activities of Komercijalna banka ad Beograd in this area are accompanied by appropriate PR support being an essential part of modern market operations that proved to be especially necessary in the extraordinary circumstances that we found ourselves in 2020. The bank communicated with its "stakeholders" in a quality, clear and targeted manner, so as to timely inform them about all the changes that accompanied the business, as well as the security procedures that it implemented. This generated mutual understanding and retained trust in the Bank, which contributes to the improvement of the achieved image and reputation.

Bank Marketing

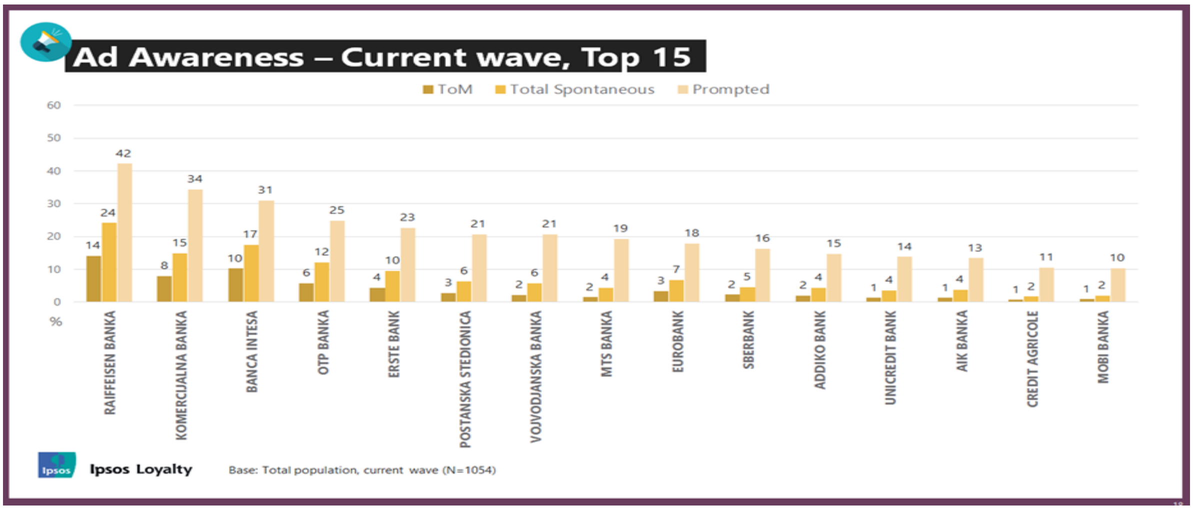
Marketing activities in 2020 continued with the promotion of products and services, both existing and new, with constant reminding and refreshing the brand. The previous year, 2020, was marked by campaigns related to the Bank's existing products and services, such as the campaigns targeting cash loans and refinancing loans, agricultural loans, housing loans, payment cards, etc.

Having in mind the emergency situation in the country due to the corona virus pandemic during the first months of 2020, and further throughout 2020 due to the bad epidemiological situation, in addition to traditional communication channels, comprehensive communication continued through the Bank's website and social networks: "Facebook, Twitter, YouTube, Instagram, Viber, and Linkedin." The mentioned digital channels contributed to the maximum information of the clients during the emergency situation, because the information was updated on a daily basis. In this way, the effects of communication were at the highest level, given that the advantages of both traditional and modern media were used. Communication messages are aimed at inviting clients to self-protection and reducing the presence of a large number of people indoors, as the most important preventive measures, as well as the use of electronic services of the Bank – mobile and electronic banking services, ATMs and payment cards. Marketing and PR communication is harmonized with the overall business activities of the Bank related to the pandemic (moratorium on loan repayment, payment of pensions, notifications on changes in working hours of branches, loans with the purpose to support corporate sector, etc.)

Due to the current epidemiological situation, unfortunately, all fairs and other events in which Komercijalna banka had registered participation for the promotion of its products and services were cancelled.

The conducted campaigns, although on a significantly reduced scale, were integrated, which means that they coordinated numerous communication channels through which we sent a clear and attractive message about the Bank and its product.

Ad awareness campaigns of banks in Serbia (banking Omnibus, November 2020)



All marketing activities have been published on the website: www.kombank.com, as well as on the Bank's official accounts on social networks.

15. PERFORMANCE OF THE BANK'S BUSINESS PLAN FOR 2020

15.1. Performance of the balance-sheet plan for 2020

The implementation of the Bank's Business Plan for 2020 took place, in relation to the initially planned conditions, in significantly changed business conditions. The emergence and spread of the COVID-19 virus pandemic, along with the need to take a number of health measures, has affected economic activity both in the international environment and in Serbia. Based on the comprehensive package of measures that have been taken by the National Bank of Serbia and the Government of the Republic of Serbia, economic activity is expected to recover during 2021. According to the latest estimate of the Republic Statistical Office, GDP decline of -1.1% was projected in 2020. Projection of GDP trends for 2021 was kept at the level of 6.0%[92]. In accordance with the decisions of the National Bank of Serbia, in 2020 the Bank offered a delay in repayment of debts arising from loans, guarantees, letters of credit, allowed overdrafts and other credit products (first, second and third moratorium). In accordance with legal regulations and recommendations of public health institutions and the Government of the Republic of Serbia, the Bank has taken all necessary measures to ensure that all business activities of the Bank, in changed conditions, are performed with full protection of employees and clients.

92 NBS, Macroeconomic Trends in Serbia, January 2021

No.	ASSETS ITEM	REALIZED IN 2020	PLAN FOR 2020	INDICES
1	2	3	4	5
	ASSETS (in RSD million)			
1.	Cash and assets with the central bank	80.045	68.858	116,2
2.	Securities	153.776	148.428	103,6
3.	**Loans and receivables from banks and other financial organizations**	**18.142**	**12.693**	142,9
3.1.	Loans	4.273	3.954	108,1
3.2.	Other lending and receivables	13.869	8.739	158,7
4.	**Loans and receivables from customers**	**189.296**	**197.714**	95,7
4.1.	Corporate (loans)	78.833	86.121	91,5
4.2.	Retail (loans)	108.586	111.202	97,6
4.3.	Other lending and receivables (corporate+retail)	1.877	391	480,1
5.	Investment in subsidiaries and affiliates	3.434	3.434	100,0
6.	Fixed assets and investment property	7.865	7.781	101,1
7.	Other assets	6.870	7.873	87,3
8.	**TOTAL ASSETS**	**459.428**	**446.779**	102,8

- The balance of cash and assets with the CB is higher in relation to the planned value, partly due to the smaller volume of lending funds than planned and lower repurchase transactions with the NBS.
- The position of the security is higher in relation to the planned volume by the amount of RSD 5,348.3 million as a result of increased investment activity in new securities of the Republic of Serbia with longer maturities.
- Loans and receivables from banks and other financial organizations are higher than planned by RSD 5,449.1 million, primarily due to the higher balance of funds in the foreign currency account.
- Corporate loans were achieved at a lower level compared to the planned value for the end of 2020 due to reduced quality demand, uncertainty caused by the effects of the COVID-19 pandemic, the adverse effects of the state of emergency on the business conditions of corporate entities.
- The COVID-19 pandemic, and all the accompanying effects, affected the retail loans observed at the year-end so as to be slightly lower than the planned annual volume.
- The lower growth of the loan portfolio than planned at the end of 2020 was offset by the growth of securities investments compared to the planned volume (3.6%).
- The value of fixed assets and investment property of the Bank is slightly above the planned values for the end of 2020.
- Other assets were realized at a lower level than planned (12.7%)

No.	LIABILITIES ITEM	REALIZED IN 2020	PLAN FOR 2020	INDICES
1	2	3	4	5
	LIABILITIES (in RSD million)			
1.	**Deposit and liabilities to banks, financial organizations and the central bank**	**19.533**	**15.604**	125,2
1.1.	Deposits	18.553	14.624	126,9
1.2.	Credit lines	977	979	99,8
1.3.	Other liabilities	3	1	281,0
2.	**Deposits and other liabilities to customers**	**358.155**	**348.795**	102,7
2.1.	**Corporate**	**47.903**	**50.800**	94,3
2.1.1.	Deposits	47.765	50.760	94,1
2.1.2.	Other liabilities	138	40	344,8
2.2.	**Retail**	**310.252**	**297.995**	104,1
2.2.1.	Deposits	309.269	297.128	104,1
2.2.2.	Other liabilities	983	867	113,4
3.	Subordinated liabilities	0	0	-
4.	Provisioning	2.529	2.062	122,7
5.	Other liabilities	5.123	4.643	110,3
6.	**TOTAL LIABILITIES**	**385.341**	**371.104**	103,8
7.	Share capital and issue premium	40.035	40.035	100,0
8.	Reserves from profit and retained earnings	34.052	35.641	95,5
9.	**TOTAL CAPITAL**	**74.087**	**75.676**	97,9
10.	**TOTAL LIABILITIES**	**459.428**	**446.779**	102,8

- At the end of 2020, despite the negative effects of the pandemic, retail deposits reached an amount slightly above the planned values for the end of 2020 (4.1%).
- Corporate deposits are below the planned values by 5.9%.
- Deposits of banks and other financial organizations are above the planned values for the end of 2020 by 26.9%.
- The provisioning position (for lawsuits, long-term employee benefits, losses on off-balance sheet assets) increased at the end of the year compared to the plan (22.7%), mainly due to the increase in provisions for litigation.
- The total capital of the Bank at the end of 2020 is lower than planned (2.1%) due to lower generated profit compared to the plan.

15.2. Performance of the P&L plan for 2020

No.	POSITION	REALIZED IN 2020	PLAN FOR 2020	INDICES
1	2	3	4	5
	(in RSD million)			
1.1.	Interest income	13.201	13.456	98,1
1.2.	Interest expenses	-1.132	-1.144	99,0
1.	**Interest gains (1.1.-1.2)**	**12.069**	**12.313**	98,0
2.1.	Fee and commission income	6.697	6.834	98,0
2.2.	Fee and commission expenses	-1.822	-1.688	107,9
2.	**Fee and commission gains (2.1. -2.2.)**	**4.875**	**5.146**	94,7
3.	Net exchange rate differences and revaluation (FX clause)	4	0	-
4.	Net cost of indirect write-off of loans and provisions	-1.072	-1.294	82,9
5.	Other operating income	-174	517	-
6.	Operating expenses	-11.510	-11.465	100,4
7.	**OPERATING PROFIT BEFORE TAX**	**4.193**	**5.217**	80,4

- Realized net interest income was lower than planned by 2.0% in 2020, as a result of the partial absence of planned corporate and retail loans, as well as lower lending interest rates in the market. Due to all the above, the total interest income is lower than planned by RSD 255.2 million. Total recorded interest expenses, during 2020, are lower than planned by RSD 11.8 million.
- Net profit from fees and commissions, realized during 2020, is lower than planned by 5.3%. The amount of net profit from fees and commissions was significantly affected by the negative effects of the COVID-19 pandemic (absence of part of revenues from payment fees and revenues from the use of payment cards).
- At the end of 2020, net expenses from impairment of financial assets that are not carried at fair value through profit or loss in the amount of RSD 1,072.0 million were generated, while the plan provided for net expenses in the amount of RSD 1,293.9 million.
- Realized operating expenses are higher than planned by RSD 45.9 million, mostly due to recognized liabilities for annual bonuses to employees at the expense of operating costs in 2020.
- Net other operating expenses (RSD 173.8 million) were realized at the end of 2020, while net other operating income (RSD 517.2 million) were planned in the same period, which mostly resulted from higher provisions for litigation.
- In the period January-December 2020, marked by the COVID-19 pandemic, KB generated the profit before tax in the amount of RSD 4,192.8 million.

Signed on behalf of Komercijalna banka a.d. Beograd

Miroslav Perić, PhD
Member of the Executive Board

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Vlastimir Vuković
President of the Executive Board

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