QUARTERLY REPORT OF KOMERCIJALNA BANKA AD BEOGRAD FOR Q2 2019

Belgrade, August 2019

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REPORT ON THE BANK`S OPERATIONS FOR THE SECOND QUARTER OF 2019

Belgrade, August 2019

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DESCRIPTION	30.06.19.	31.05.19.	30.04.19.	31.03.19.	2018	2017
PROFIT AND LOSS (RSD 000)						
Profit before taxation	4.338.646	2.972.570	2.462.947	1.668.492	8.121.073	7.187.250
Net interest income	6.307.132	5.227.280	4.167.086	3.131.566	12.834.638	12.446.197
Net income from fees	2.604.550	2.133.305	1.684.963	1.216.082	5.210.149	5.082.227
Operating costs	5.178.212	4.301.799	3.437.877	2.563.317	10.473.783	10.833.081
Net profit from impairment of FI derecognized at fair value through profit and loss	1.637.952	806.290	569.173	442.079	9.493	17.883

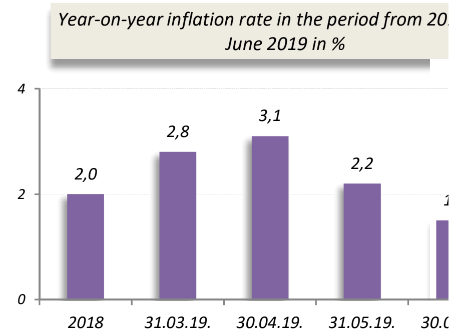
DESCRIPTION	30.06.19.	31.05.19.	30.04.19.	31.03.19.	2018	2017
BALANCE SHEET (RSD 000)						
Balance sheet assets	412.275.059	408.603.521	406.003.382	403.260.675	401.165.980	369.183.538
Off-balance sheet operations	444.423.385	471.005.026	472.377.054	466.020.108	457.820.051	474.428.780
RETAIL						
Loans[1]	94.922.028	93.993.663	94.078.941	93.529.637	92.033.605	81.712.222
Deposits[2]	267.657.937	266.248.933	265.222.541	262.592.960	260.296.411	241.210.420*
CORPORATE						
Loans	77.120.481	79.627.472	75.740.279	76.996.034	75.264.373	71.725.704
Deposits	47.351.144	49.046.154	47.647.351	47.449.645	49.879.580	41.371.592**

INDICATORS	30.06.19.	31.05.19.	30.04.19.	31.03.19.	2018	2017
LOANS/DEPOSITS RATIO						
Gross loans/deposits	58,79%	58,75%	58,40%	58,53%	58,35%	61,30%
Net loans/deposits	55,35%	55,30%	54,84%	54,95%	54,76%	56,11%
CAPITAL (RSD 000)	69.021.365	66.700.683	65.951.519	68.813.271	67.560.513	63.260.055
Capital adequacy	30,09%	28,33%	28,06%	27,95%	29,18%	27,89%
Number of employees	2.757	2.755	2.754	2.754	2.766	2.806
PROFITABILITY PARAMETERS						
ROA	2,1%	1,8%	1,8%	1,7%	2,1%	1,9%
ROE – on total equity	12,8%	10,5%	10,9%	9,7%	12,6%	11,9%
Net interest margin on total assets	3,1%	3,1%	3,1%	3,1%	3,4%	3,3%
Cost / income ratio	58,1%	58,4%	58,7%	59,0%	58,0%	61,8%
Operating cash flow	6.623.747	5.138.645	4.436.308	4.307.020	9.379.217	9.231.864
Assets per employee (EUR 000)	1.268	1.257	1.250	1.241	1.227	1.111
Assets per employee (RSD 000)	149.538	148.313	147.423	146.427	145.035	131.569

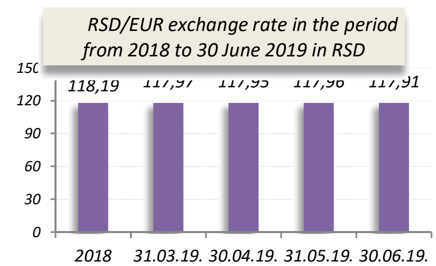
1 Note: Item loans (retail and corporate) does not include other placements and receivables
2 Item deposits does not include other liabilities and funds received through credit lines
* On 1 January 2018 the micro clients` deposits were transferred from the corporate to the retail business function, which is why the data published in the Annual Report on Operation for 2017 differed – correction made for the purpose of comparing 2017 data with 2018 data
**The same

2. MACROECONOMIC OPERATING CONDITIONS IN THE PERIOD 1 JANUARY TO 30 JUNE 2019

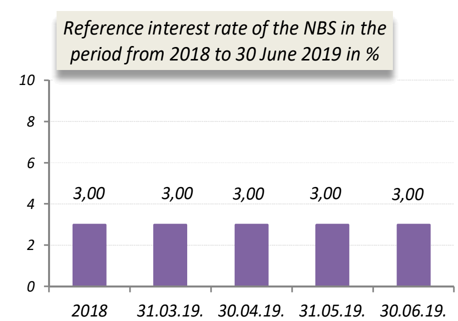
Year-on-year inflation, at the end of the second quarter of the current year, had also a trend within the target rate limits for 2019 (3.0% ± 1.5pp). The year-on-year (yoy) inflation rate at the end of the second quarter of 2019 was 1.5%, while monthly inflation or deflation was -0.3%. The movement of monthly inflation was determined by the fall in prices of vegetables and petroleum products, as well as the increase in prices of tourist package arrangements.



In the first half of the current year, dinar did not fluctuate significantly against the euro. The dinar exchange rate was around the value of 118 dinars for one euro. At the end of the first half of 2019, the dinar appreciated 0.2% compared to the end of 2018. The National Bank of Serbia intervened on the interbank foreign exchange market (IFEM) with a net purchase of EUR 955.0 million, which is less than in the same period last year.



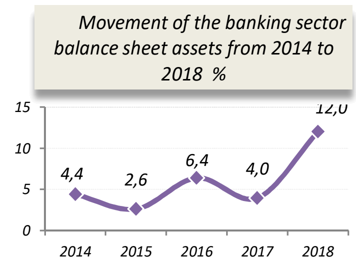
During the first half of 2019, the National Bank of Serbia did not change the reference interest rate (RIR) given the projection of inflation and its factors in the coming period. Year-on-year inflation was within the target (3.0% ± 1.5pp). However, prudent management of monetary policy is needed because of tendencies in the international environment. The slowdown in global economic growth also affects the monetary policies of the leading central banks, the US Federal Reserve (Fed) and the European Central Bank (ECB). The price of oil on the world market is still volatile. Domestic economic growth will be driven by domestic demand, that is, investment and consumption.



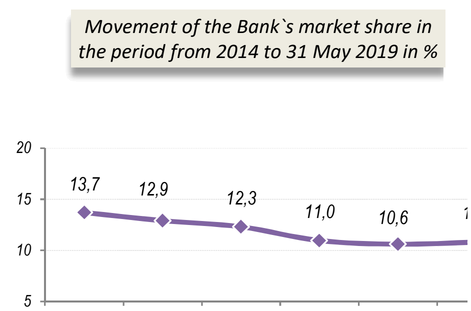
3. BANKING SECTOR AND FINANCIAL POSITION OF THE BANK

At the end of December 2018, the banking sector of the Republic of Serbia comprised 27 banks, with total assets of RSD 3,774.1 billion and total capital of RSD 676.7 billion[3]. The ten largest banks, in terms of balance sheet assets, account for 78.2% of total sector assets. The banking sector's net result before taxation increased by 10.2% compared to the end of 2017. In the observed period, the Bank, in the banking sector, was ranked third in terms of balance sheet assets and fourth in the amount of profit before taxation.

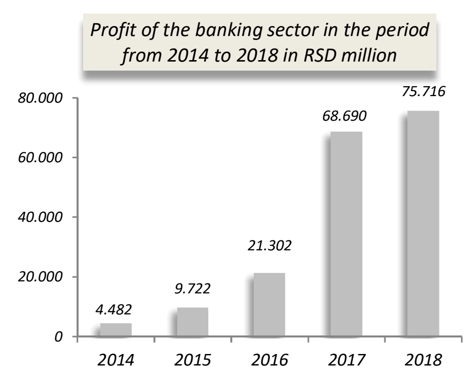
The banking sector in the Republic of Serbia recorded an increase of 12.0% in balance sheet assets at the end of 2018 compared to the end of 2017. On 31 Dec. 2018 the total capital of the sector increased by 1.4% compared to the end of 2017. The capital adequacy of the banking sector at the end of 2018 was 22.3%.



At the end of 2018, the Bank's share in the banking sector's assets was 10.6%, while the Bank's share in the capital of the sector was 10.0%.
Business policy of prudent credit portfolio management and high coverage of NPLs with allowances for impairment did not cause the Bank to significantly change its share in the banking sector assets during 2018. According to the latest available data, the Bank's market share as of 31 May 2019 was 10.8%.*



During 2018, the banking sector recorded a growth in profitability compared to 2017. At the end of 2018, a positive net financial result, before taxation, was achieved in the amount of RSD 75.7 billion. In the observed period, 25 banks operated positively with a total result of RSD 76.6 billion, while 2 banks operated negatively with a total loss of RSD 0.9 billion.



3 Presentation made on the basis of available official data from the Internet presentation of the National Bank of Serbia
*NBS, Macroeconomic trends in Serbia, July 2019

4. ORGANISATIONAL STRUCTURE AND BODIES OF THE BANK

The Bank's Board of Directors was established in accordance with the Law on Banks and the Agreement between the shareholders – the Republic of Serbia and a group of international financial institutions and consists of nine members, including the chairperson, three of which are independent members. At least three members of the Bank`s Board of Directors must have relevant experience in the field of finance. The members of the Board of Directors of the Bank are appointed by the Shareholders Assembly of the Bank for a period of four years. The responsibilities of the Bank's Board of Directors are defined in Article 73 of the Law on Banks and Article 27 of the Bank's Articles of Association. The members of the Board of Directors of the Bank on 30 June 2019 were as follows:

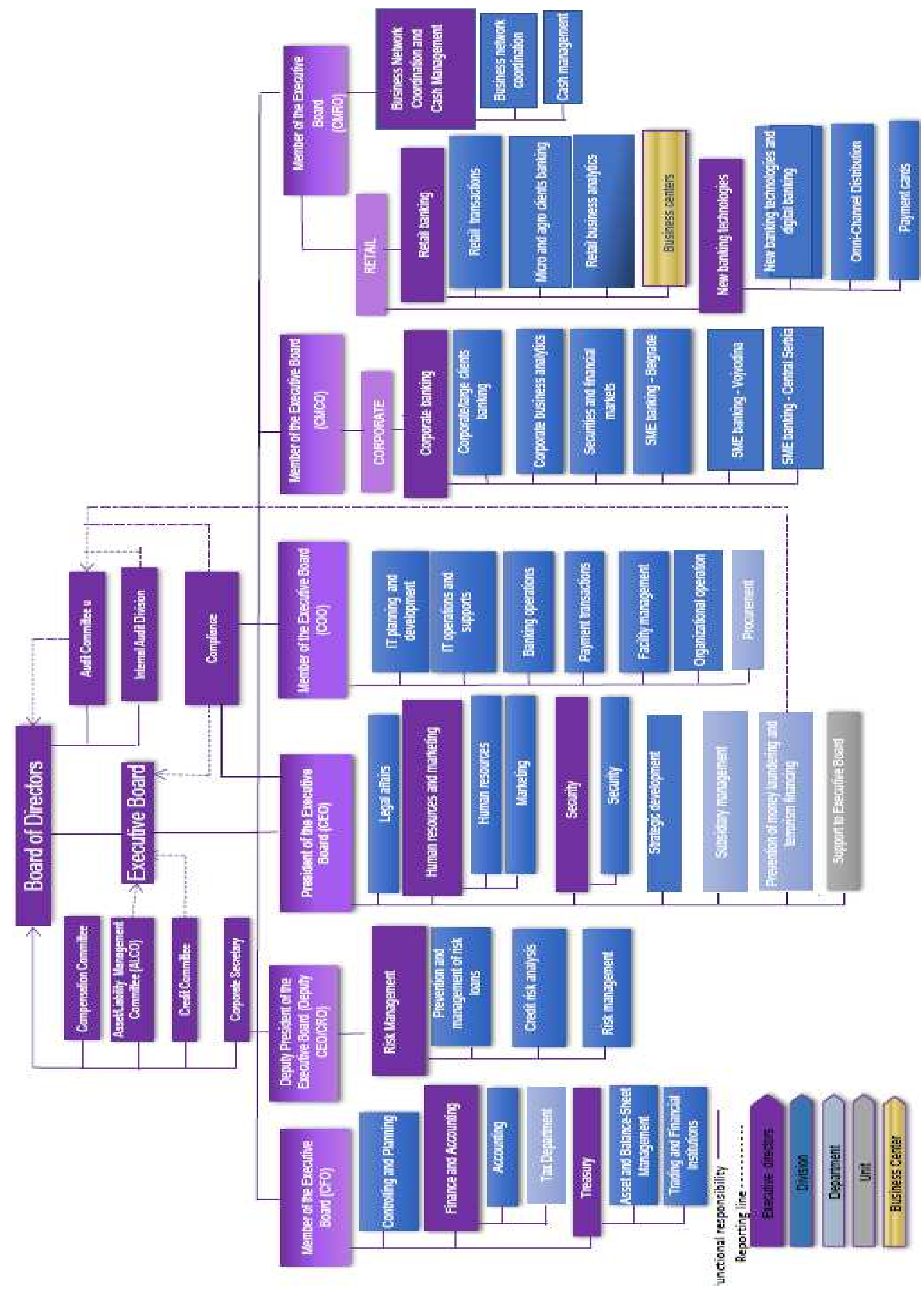
FIRST NAME AND FAMILY NAME	TITLE
Marija Sokić	Chairperson, representative of the Republic of Serbia
Dr. Daniel Pantić	Member, representative of the Republic of Serbia
Dejan Hadžić	Member, representative of the Republic of Serbia
Aleksei Germanovich	Member, representative of the EBRD
Oleksandr Danyliuk	Member, representative of the EBRD
Javed Hamid	Member, representative of the IFC
Katarina Šušić	Independent member
Goran Knežević	Independent member
Prof. Dr. Zoran Jović	Independent member

The Executive Board consists 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 Bank's Executive Board, including the President and the Deputy President is four years starting from the date of appointment.
Responsibilities of the Executive Board are defined by the Article 76 of the Law on Banks and by the Article 31 of the Bank's Articles of Association.
The members of the Bank's Executive Board as of 30 June 2019 were as follows:

FIRST NAME AND FAMILY NAME	TITLE
Dr. Vladimir Medan	President
Sladjana Jelić	Deputy President
Dragiša Stanojević	Member
Dr. Miroslav Perić	Member
Pavao Marjanović	Member

The Committee for Supervision of Bank's Operations (Audit Committee) consists of three members, two of whom are the members of the Bank's Board of Directors who have relevant experience in the field of finance. One member of the Committee for Supervision of Operations is the person independent of the Bank. The members of the Committee are appointed for a period of four years.
The duties of the Committee for Supervision of Operations are defined by Article 80 of the Law on Banks and by Article 34 of the Bank's Articles of Association. The members of the Committee for Supervision of Operations as of 30 June 2019 were as follows:

FIRST NAME AND FAMILY NAME	TITLE
Dr. Daniel Pantić	President
Javed Hamid	Member
Milena Kovačević	Member



Note: Organisational chart of the Bank as of 30 June 2019

5. FINANCIAL POSITION AND BUSINESS RESULTS OF THE BANK IN THE PERIOD 1 JANUARY TO 30 JUNE 2019

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At the end of the second quarter of 2019, the Bank's balance sheet assets amounted to RSD 412,275.1 million and increased by RSD 11,109.1 million compared to the end of 2018.

Off-balance sheet assets decreased by 2.9% at the end of the second quarter of 2019, reaching RSD 444,423.4 million at the end of June this year.

During the first six months of 2019, the Bank continued to reduce its borrowings through credit lines in the amount of RSD 1,077.7 million compared to the end of 2018 (-38.2%). During the same period, the Bank recorded an increase in deposits (excluding other liabilities and credit lines) in the amount of RSD 4,173.2 million or 1.3%. Within the structure of the mentioned change, retail deposits increased by RSD 7,361.5 million, while corporate deposits decreased by RSD 3,188.3 million. These changes also include the effect of appreciation of the dinar against the euro (0.2%) and depreciation against the Swiss franc (1.3%) and the US dollar (0.4%), from the beginning of the year to the end of the second quarter of 2019.

DESCRIPTION	30.06.19.	31.05.19.	30.04.19.	31.03.19.	2018	2017
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ROA	2,1%	1,8%	1,8%	1,7%	2,1%	1,9%
ROE – on total equity	12,8%	10,5%	10,9%	9,7%	12,6%	11,9%
Net interest margin on total assets	3,1%	3,1%	3,1%	3,1%	3,4%	3,3%
Cost / income ratio	58,1%	58,4%	58,7%	59,0%	58,0%	61,8%
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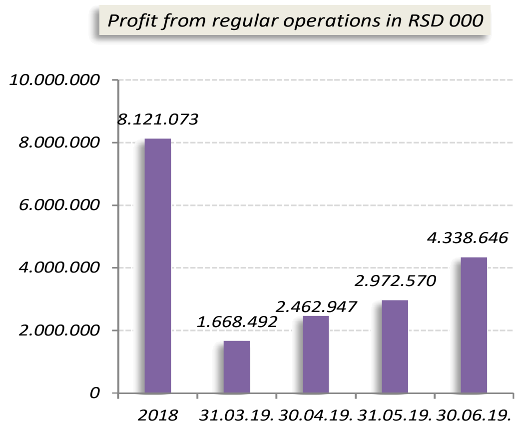
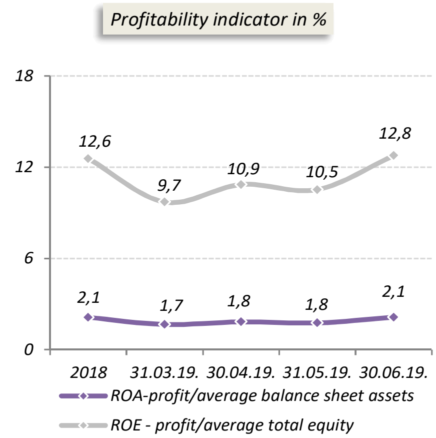




In the first six months of 2019, the Bank achieved a higher amount of profit before taxation compared to the same period of the previous year. Profit before taxation in the period 1 January to 30 June 2019 amounted to RSD 4,338.6 million, which is an increase of RSD 717.9 million (19.8%) compared to the same period last year. The realised profit before taxation provided the Bank with a return on total equity of 12.8% in the first half of 2019, or a return on balance sheet assets of 2.1%.

In the first half of 2019, compared to the same period last year, profit trends were influenced by net income from impairment of financial assets derecognized at fair value in the amount of RSD 1,638.0 million, increase in other expenses in the amount of RSD 605.3 million, net loss resulting from derecognition of financial instruments valued at depreciated cost of RSD 590.5 million. Other revenues increased by RSD 202.9 million compared to the same period last year. Also, there was an increase in depreciation costs in the amount of RSD 212.9 million, which is largely a result of the implementation of the new IFRS 16 (effective from 1 Jan. 2019), which largely equates hire with leasing and according to which lease costs (except for short-term lease contracts) are recorded at depreciation expense.

Due to the increase in business volume and a slight decrease in the number of employees in the first six months of 2019, the Bank's assets per employee increased from RSD 145.0 million (31 December 2018) to RSD 149.5 million at the end of the second quarter of 2019.

At the end of the first half of the current year, the Cost Income Ratio (CIR) was 58.1%, while it amounted to 59.3% in the same period last year.

5.1. Retail banking

In the first half of the year, the retail banking continued its upward trend and achieved, by most indicators, significant results.

Loans

The focus was on the growth of lending and an increase in the loan portfolio, achieving net income and maintaing the market share.

In the first half of 2019, loans worth RSD 22.6 billion were realised, which is RSD 200 million more than in the same period in 2018. Lending growth was realised thanks to constant innovation of product supply, the improvement of procedures and technological solutions.

Realisation was higher in the segment of retail and agricultural loans, while for cash and micro business loans it was approximately the same as in the first half of last year.

The largest increase was recorded in **housing loans** (27.3%) due to satisfactory product supply and significant demand in the real estate market. There was a noticeable upward trend in the market and in the Bank for loans not secured by the National Mortgage Insurance Corporation (NMIC). Considering the favourable market supply, the Bank also applies a customer retention policy in order to preserve the quality and amount of the portfolio. On 30 June 2019 the Bank's market share amounted to 10.4% and was higher than at 31 December 2018 by 0.03 p.p.

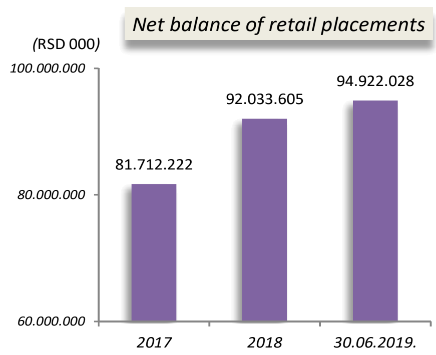
In the **cash loans** segment, the realistion was at approximately the same level as in the first half of the last year. Starting from 1 Jan. 2019, according to the Decision of the NBS, borrowing on cash loans was limited to a maximum term of 95 months, and liabilities for overdrafts and debit cards with deferred payment were taken into account when calculating credit standing, which led to a decrease in the average amount of loans. It is the segment with the most intense competition, where the supply is based on large amounts and bills of exchange security, with favourable interest rates. Also, the supply is increasingly based on personalized offers for specific client groups, and especially for high-income clients. Much attention is also paid to loans for pensioners, since they make up a significant number of clients. The Bank's market share in this segment on 30 June 2019 was 7.5% and was higher than on 31 December 2018. by 0.05 p.p.

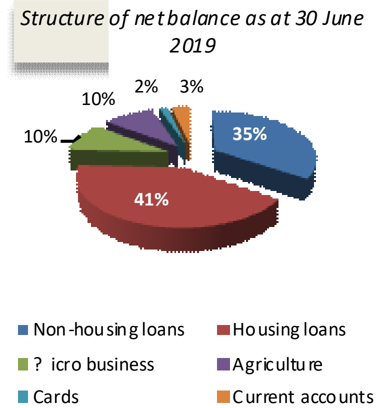
In **agribusiness**, the realisation of loans was 5.4% higher. In the first half of the year, loans from own supply dominated, as the granting of subsidized loans began in late May. The Bank has enriched the offer with a special line of credit for the purchase of agricultural land with a repayment period of up to 15 years, which gives clients additional flexibility in terms of optimizing the annuity amount. The Bank increased its market share by 0.3 pp to 13.9%.

In the **micro-business segment**, the realisation of loans was at approximately the same level as in the first half of last year. In addition to the regular ones, the supply in this segment is largely based on specially designed promotional products, in order to be competitive in the market at any moment. This segment covers entrepreneurs and micro-enterprises. In the segment of entrepreneurs, the Bank's market share increased and as at 30 June 2019 it amounted to 9.2%.

During the first half of the year, mostly cash loans were realised (49.6% of total realisation), followed by loans to micro-business (23.2%), farmers (13.7%) and housing loans (13.1%).
All of the above led to an increase in the net balance of retail placements by RSD 2.9 billion compared to the balance as of 31 Dec. 2018. If the housing loans indexed in CHF had not been converted, the net balance growth would have been over RSD 4 billion.

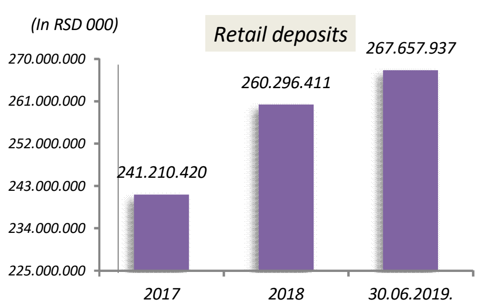
In the structure of the net balance, the share of housing loans decreased (41.0%) and the share of other, more profitable products increased (59.0%).





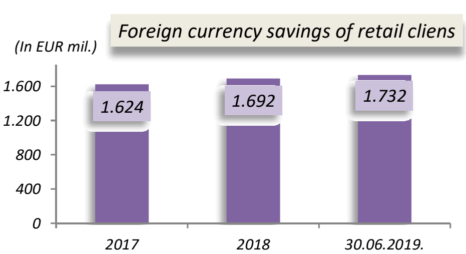
Deposits[4]

In the first half of 2019, retail deposits increased by RSD 7.4 billion or 2.8%, which continued a steady upward trend of deposits.



In the first half of 2019, the total foreign currency deposits of the retail clients in the banking market (excluding micro-enterprises) increased by EUR 418 million, while the Bank with its growth of EUR 47 million maintained its leading position in the market with a share of 18.2%.

If classic foreign currency savings of retail clients are observed, they increased by EUR 40 million during the first half of the year.



**The above shown foreign currency savings exclude dedicated foreign currency accounts (pensioners) and entrepreneurs*

The share of foreign currency savings of retail clients with a maturity of 12 months and longer decreased by 30.5%, while the share of avista savings increased and now stands at 66.1% . Savings deposits of up to EUR 50,000 dominate (over 99%, 74%).

4 Item deposits excludes other liabilities and assets acquired through credit lines

After several years of decline, borrowing interest rates on the retail foreign currency savings stagnated (as of 30 June 2019 they amounted to 0.23%). Stagnation or a slight increase in borrowing interest rates is expected in the coming period. The bank is recognized by clients as the most trusted institution, therefore deposits are constantly growing.

Other products

Account sets for citizens continued to conquer the market. In the first half of 2019 about 32,600 account sets were opened, of which about 4,400 sets were for the youngest clients (18-27 years old), which forms the basis for safe business in the future.
Sets of accounts for micro business continuded a positive trend from the last year, and in the first half of 2019, another 3,200 clients opened account sets.
Clients currently have around 950,000 payment cards, 45% of which are regularly used.

Digitization of operations

In digital channels (e-banking) the CRM tool was introduced, which, after clients` consent, analyzes the interaction with them, and accordingly offers products and services to them according to their needs and capabilities. In addition, based on clients` feedback, optimization, redesign and enhancement of the eBankWEB retail e-banking application was completed to improve the user experience. Due to these improvements, the number of clients who regularly use electronic and mobile banking for payments increased by 4,000 (by about 70,000 natural persons and 13,000 micro business clients).

Business network

We perform business operations in the retail segment in 203 sub-branches, whereby we are the market leader, in the coverage of the same and accessibility to clients. There are 276 ATMs (5 ATMs more than on 31 Dec. 2018) available to clients and around 13,700 POS terminals (about 60 terminals more than on 31 Dec. 2018) by which we are also one of the leaders in the market. Having in mind the needs of clients, the Bank continued to improve its user experience by improving the appearance of sub-branches, moving to new premises, adapting working hours, etc.

Profitability

Due to all business activities, retail operations generated total net income from interest and fees in the amount of RSD 5,024.9 million in the first half of the year, which represents an increase of 4.6% (RSD 219.3 million) compared to the same period of the last year.

5.2. Corporate banking

Market-key tendencies

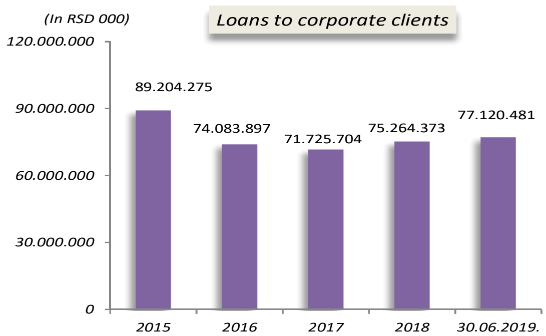
In 2019, the downward trend in RSD interest rates has continued, despite the stabilization of the National Bank of Serbia's reference interest rate and the decrease in interest rates on foreign currency loans. The fall in interest rates on euro-indexed loans was also influenced by a sharp fall in the country risk premium and a relaxation of the monetary policy of the European Central Bank.

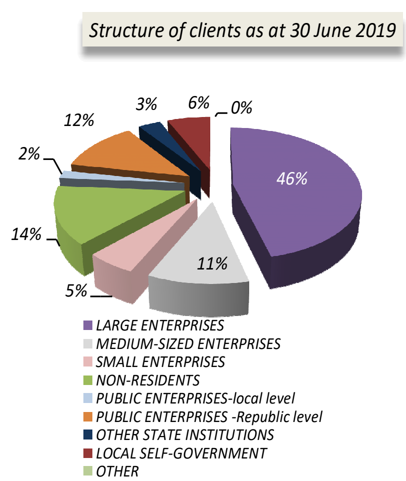
The banks' standards for newly approved corporate loans, which were eased in 2018, remained unchanged in 2019, primarily for small and medium-sized enterprises and, to a lesser extent, large enterprises. In terms of maturity and currency, the easing of standards is present in the short and long-term dinar lending to corporate clients, as well as the short-term lending to corporate clients in foreign currency. Banks also show greater willingness to take risks when lending to corporate clients (especially in the part of loan collateralisation).

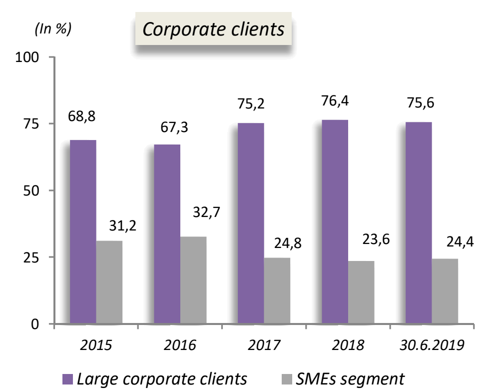
At the level of the banking sector, the level of gross loans was lower than at the end of 2018 (total companies and public enterprises recorded a decrease of 0.6% or RSD 6.0 billion).[5]

Loans[6]

Realisation of newly approved loans in 2019 increased by RSD 3.1 billion or 13.9% compared to the same period in 2018 (RSD 1.26 billion more in the Large Corporate Clients segment and RSD 1.85 billion more in SMEs segment). In the structure of clients by segments, the share of large corporate clients dropped from 76.4% (at the end of 2018) to 75.6%.







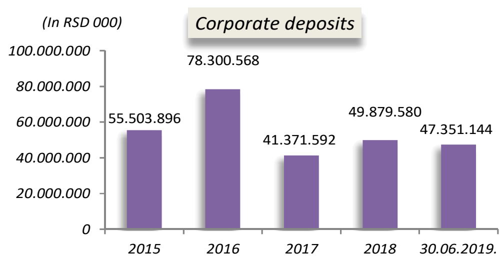
The interest rate on loans indexed in EUR was still lower compared to loans in dinars, which in the conditions of stable exchange rate was the determining factor of the market for higher demand for loans with a currency sign compared to RSD loans. Accordingly, the share of dinar loans in the portfolio at the end of the second quarter of 2019 came to a level of only 7.5%.

In terms of competition during the second quarter of 2019, the most active banks were Banca Intesa a.d. Beograd, UniCredit Banka Srbija a.d. Beograd, Raiffeisen Bank a.d. Beograd, Societe Generale Banka a.d. Beograd, with occasional market shares of the following banks: ProCredit a.d. Beograd and Erste Bank a.d. Novi Sad. A more flexible approach (interest rates, maturities, required collateral) is noticeable for all competitors when granting loans.

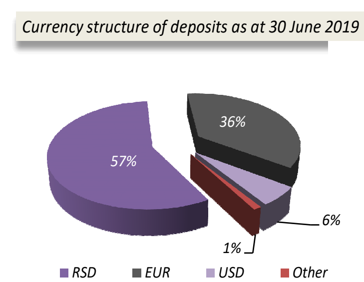
5 NBS, Consolidated balance of the banking sector, May 2019.
6 Item loans and deposits excludes other placements

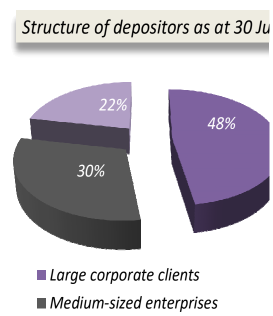
Deposits [7]

A high share of transaction deposits of 76.1% of total corporate deposits results in lower interest expenses and has a positive impact on the Bank's operating result. The amount of corporate deposits in 2018 was also influenced by the Bank's decision to record deposits of micro-clients from 1 Jan. 2018 in the business line of the retail clients.

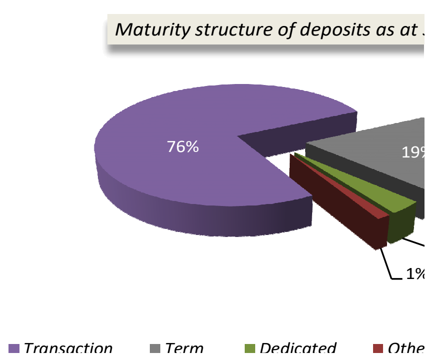


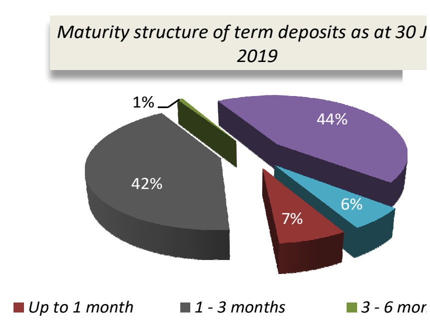
Note: At the end of 2017, RSD 11.2 billion of deposits of micro clients were transferred from corporate to retail segment, which makes the data different from the data in the Annual Report for 2017; the amount of corporate deposits at the end of 2016 was influenced by one individual deposit.





Note: Presentation of the structure of depositors was made on the basis of internal segmentation of clients.





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7 Item deposits excludes other liabilities and funds acquired through credit lines

5.3. Asset management – Treasury

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

The environment in which the Treasury's business function operated by the end of the second quarter of 2019 was marked by the continuation of the downward trend in return on domestic government securities, significant NBS interventions in the foreign exchange market and negative interest rates on EUR and CHF in foreign markets, which, given the available funds, represented a very significant challenge in liquidity management.

Compared to the same period in 2018, an increase in the achievement of results in the amount of 6.85% was recorded.

Ending the second quarter of 2019, the Bank's liquidity position was stable, with liquid assets placed predominantly in government securities of the Republic of Serbia.

The high participation of the Bank in the primary auctions of government securities of the Republic of Serbia was accompanied by a very active participation in the secondary market, while given the maturity structure of sources, most of the short-term dinar liquidity was placed through short-term placements in the interbank market, reverse REPO transactions with NBS, interbank REPO transactions, and excess liquidity deposited with NBS as overnight placements.

Activities of the Treasury function in the foreign exchange market were also intense.

As of March 2019, the final tranche of the credit facility contracted with the EBRD was repaid, so that the Bank has no bilateral credit lines withdrawn at this time.

At the end of 2018, the Bank entered into a Guarantee Facility Agreement with the European Investment Fund (EIF) under the WB EDIF programme. In the second half of June 2019, the conditions for starting implementation were achieved.

The balance of tripartite credit lines concluded with NBS as Agent amounts to EUR 14.76 million.

6. BALANCE SHEET AS AT 30 JUNE 2019

6.1. Assets of the Bank as at 30 June 2019

(In RSD 000)

No.	DESCRIPTION OF THE BALANCE SHEET ITEM	30.06.2019.	31.12.2018.	INDICES
1	2	3	4	5=3/4
1	Cash and funds held with Central Bank	64.074.823	63.595.710	100,8
2	Pledged financial assets	-	-	-
3	Receivables from derivatives	-	4.070	-
4	Securities	132.061.405	133.177.598	99,2
5	Loans and receivables from banks and other financial organizations	22.713.795	18.477.729	122,9
6	Loans and receivables from clients	172.494.006	167.545.674	103,0
7	Changes in fair value of items subject to risk protection	-	-	-
8	Receivables from derivatives intended for risk protection	-	-	-
9	Investments in subsidiaries and joint ventures	-	-	-
10	Investments in subsidiaries	3.438.573	2.611.859	131,7
11	Intangible assets	690.342	557.051	123,9
12	Property, plant and equipment	6.613.419	5.619.078	117,7
13	Investment property	1.877.137	1.896.347	99,0
14	Current tax assets	-	-	-
15	Deferred tax assets	1.433.502	840.967	170,5
16	Fixed assets intended for sale and assets from discontinued operations	227.630	227.630	100,0
17	Other assets	6.650.427	6.612.267	100,6
	TOTAL ASSETS (from 1 to 17)	**412.275.059**	**401.165.980**	102,8

At the end of the first half of 2019 the Bank's balance sheet assets increased by RSD 11,109.1 million or 2.8% compared to the end of 2018.
In the structure of balance sheet items, increase of items loans and receivables from clients by RSD 4,948.3 million or 3.0% dominate, while loans and receivables from banks and other financial organizations increased by RSD 4,236.1 million or 22.9%. Total placements and receivables from clients and banks amount to RSD 195,207.8 million, which represents 47.3% of the total balance sheet assets of the Bank as at 30 June 2019.

The item securities decreased during the first two quarters of 2019 by RSD 1,116.2 million or 0.8%. Much of this decrease is a result of the decrease in securities of the Republic of Serbia, which are valued at fair value through the other result, government bonds in foreign currency. Among other items, during the first half of the current year, there was a significant increase in the item property, plant and equipment in the amount of RSD 994.3 million, mainly as a result of the implementation of the new IFRS 16. Implementation of the standard (as of 1 Jan. 2019) resulted in recording of liabilities arising from fixed assets taken into leasing in the amount of RSD 1,349.5 million as of 30 June 2019.

Item investment in subsidiaries increased during the second quarter of 2019 as a result of a new valuation of the fair value of permanent deposits and a subsidiary abroad by an independent appraiser. Increase in the item investment in subsidiaries, in the amount of RSD 826.7 million, is the result of a decrease in the allowance for impairment for participation in the capital of subsidiaries abroad. The aforementioned change also led to an increase in the revenue from the abolition of indirect write-offs in the equity of subsidiaries, which are valued at cost.

6.2.The Bank`s liabilities as at 30 June 2019

(In RSD 000)

No.	DESCRIPTION OF THE BALANCE SHEET ITEM	30.06.2019.	31.12.2018.	INDICES
1	2	3	4	5=3/4
1	Liabilities based on derivatives	-	-	-
2	Deposits and other financial liabilities to banks, other financial organisations and the central bank	4.340.011	5.662.748	76,6
3	Deposits and other financial liabilities to other clients	321.757.210	317.229.084	101,4
4	Liabilities based on derivatives intended for risk protection	-	-	-
5	Changes in fair value of items subject to risk protection	-	-	-
6	Liabilities based on securities	-	-	-
7	Subordinated liabilities	-	-	-
8	Provisions	2.344.530	1.653.663	141,8
9	Liabilities for assets intended for sale and operating funds from discontuned operations	-	-	-
10	Current tax liabilities	-	-	-
11	Deferred tax liabilities	752.901	-	-
12	Other liabilities	14.059.042	9.059.972	155,2
	TOTAL LIABILITIES (from 1 to 12)	**343.253.694**	**333.605.467**	102,9
	CAPITAL			-
13	Share capital	40.034.550	40.034.550	100,0
14	Treasury shares	-	-	-
15	Profit	5.257.301	9.047.691	58,1
16	Loss	-	-	-
17	Reserves	23.729.514	18.478.272	128,4
18	Ungenerated losses	-	-	-
19	Non-controlling shares	-	-	-
20	**TOTAL CAPITAL (from 13 to 19)**	**69.021.365**	**67.560.513**	102,2
	TOTAL LIABILITIES (from 1 to 19)	**412.275.059**	**401.165.980**	102,8

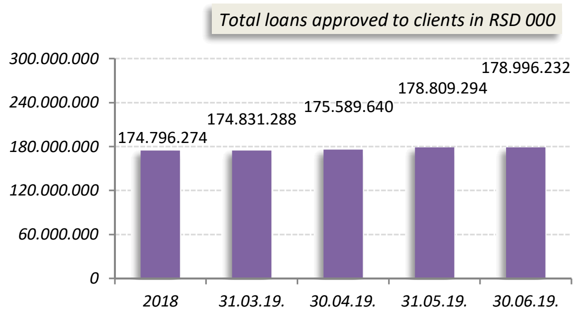
At the end of the first half of 2019 total liabilities of the Bank amounted to RSD 343,253.7 million and accounted for 83.3% of total liabilities (31 Dec. 2018: 83.2%). At the same time, total capital amounted to RSD 69,021.4 million and accounted for 16.7% of total liabilities (31 Dec. 2018: 16.8%). Total liabilities increased by RSD 9,648.2 million or 2.9% compared to the end of the previous year, while total capital increased by RSD 1,460.9 million or 2.2%.

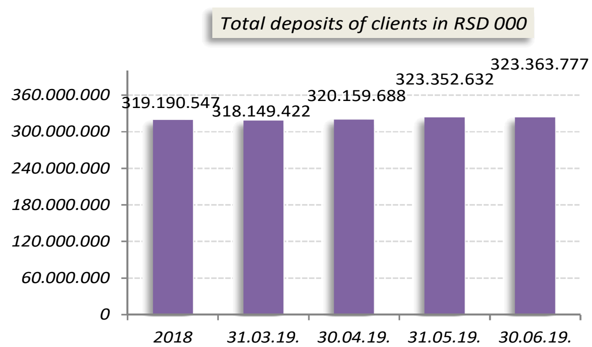
The item deposits and other financial liabilities to clients increased in the reporting period by RSD 4,528.1 million or 1.4%, while the item deposits and other financial liabilities to banks reduced compared to the end on the last year by RSD 1,322.7 million or 23.4%. Item other liabilities increased by RSD 4,999.1 million or 55.2%. At the end of the second quarter of 2019 the item provisions increased by RSD 690.9 due to increase in provisions for liabilities.

In the second quarter of 2019, decrease in foreign credit lines continued, in the net equivalent of RSD 1,077.7 million, so that the balance of RSD equivalent of the liabilities as of 30 June 2019 amounted to RSD 1,740.3 million.

In the structure of balance sheet liabilities, total deposits and other financial liabilities of banks and clients amounted to RSD 326,097.2 million, which represents 79.1% of total balance sheet liabilities, recording an increase of RSD 3,205.4 million or 1.0% compared to the end of the previous year.

6.3. Loans approved to clients and clients` deposits as at 30 June 2019





The most significant category of balance sheet assets, loans approved to clients (excluding other placements and receivables), recorded an increase of RSD 4,200.0 million. At the end of Q2 2019, placements to corporate clients reached RSD 77,120.5 million, an increase of 2.5% compared to the end of 2018. Retail placements amounted to RSD 94,922.0 million, an increase of 3.1% compared to the end of the previous year. Placements to banks and financial organizations at the end of the second quarter of 2019 reached RSD 6,953.7 million, representing a decrease of 7.3%.

Total loans to banks, other financial organisations and clients, as of 30 June 2019 amounted to RSD 178,996.2 million and increased by 2.4% compared to the end of the previous year.

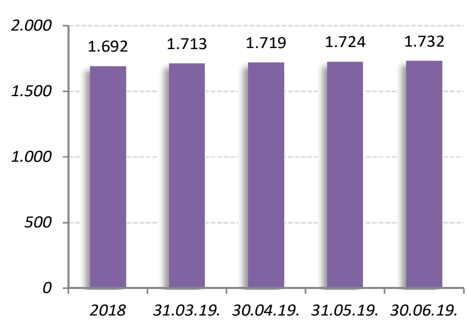
(In 000 RSD)

No.	DESCRIPTION	BALANCE AS AT 30 June 2019	BALANCE AS AT 31 Dec. 2018	INDICES
1	2	3	4	5=(3:4)*100
I	*LOANS APPROVED TO CLIENTS (1.+2.+3.)*	178.996.232	174.796.274	102,4
1.	Corporate	77.120.481	75.264.373	102,5
2.	Retail	94.922.028	92.033.605	103,1
3.	Banks and financial organisations	6.953.723	7.498.296	92,7
II	*DEPOSITS RECEIVED FROM CLIENTS (1.+2.+3.)*	323.363.777	319.190.547	101,3
1.	Corporate	47.351.144	49.879.580	94,9
2.	Retail	267.657.937	260.296.411	102,8
3.	Banks and financial organisations	8.354.696	9.014.556	92,7

NOTE:
-Loans approved excluding other placements and receivables, deposits received excluding other liabilities and received funds in the form of credit lines

Change in deposits of banks, other financial organisations and clients (excluding other liabilities and credit lines) in the second quarter of 2019 was the result of an increase in retail deposits, a decrease in deposits of companies and a decrease in deposits of banks and other financial organizations. Retail deposits increased by RSD 7,361.5 million or 2.8% in the observed period, corporate clients' deposits decreased by RSD 2,528.4 million or 5.1%, while deposits from banks and other financial organizations decreased in the equivalent of RSD 659.9 million or 7.3%.

Foreign currency savings in the period from 2018 to 30 June 2019 in EUR million



Still, enjoying the reputation of a safe and stable bank in the market, in the observed period the Bank managed to increase its foreign currency savings deposits by EUR 39.9 million, or 2.4%.

Despite the decrease in deposit interest rates, clients' foreign currency savings increased in the first half of 2019, reaching EUR 1,732.0 million.

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

6.4. Off-balance sheet items as at 30 June 2019

(In 000 RSD)

No..	DESCRIPTION	BALANCE AS AT 30 June 2019	BALANCE AS AT 31 Dec. 2018	INDICES
1	2	3	4	5=(3:4)*100
1	TRANSACTIONS FOR AND ON BEHALF OF THIRD PARTIES	4.180.485	4.228.635	98,9
2	FUTURE LIABILITIES ASSUMED	49.397.174	44.069.612	112,1
3	RECEIVED QUARANTEES FOR FUTURE LIABILITIES	-	-	-
4	DERIVATIVES	-	1.772.919	-
5	OTHER OFF-BALANCE SHEET ITEMS	390.845.726	407.748.884	95,9
	TOTAL	**444.423.385**	**457.820.051**	97,1

The Bank's total off-balance sheet assets, during the second quarter of 2019, decreased by RSD 13,396.7 million compared to the end of 2018.

On 30 June 2019, the assumed future liabilities amounted to RSD 49,397.2 million, which was an increase of RSD 5,327.6 million or 12.1% compared to the end of the previous year, mainly due to the increase in irrevocable commitments for loans and placements which were not drawn.

On 30 June 2019 there were no derivatives in the off-balance sheet records in contrast to the end of 2018 when they amounted to RSD 1,772.9 million.

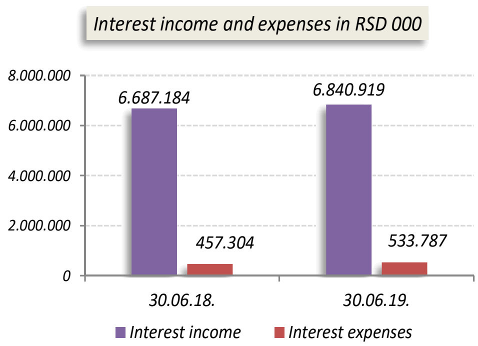
Other off-balance sheet items decreased by RSD 16,903.2 million or 4.1% compared to the end of 2018.

7. PROFIT & LOSS ACCOUNT FOR THE PERIOD 1 JANUARY TO 30 JUNE 2019

(In RSD 000)

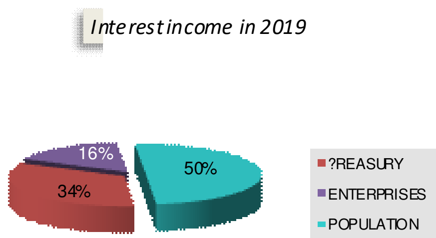
No.	DESCRIPTION	BALANCE AS AT 30 June 2019	BALANCE AS AT 30 June 2018	INDICES
1	2	3	4	5=(3:4)*100
	OPERATING INCOME AND EXPENSES			
1.1.	Interest income	6.840.919	6.687.184	102,3
1.2.	Interest expenses	(533.787)	(457.304)	116,7
1.	**Net interest income/expenses**	**6.307.132**	**6.229.880**	101,2
2.1.	Income from fees and commissions	3.398.418	3.433.346	99,0
2.2.	Expenses from fees and commissions	(793.868)	(880.328)	90,2
2.	**Net income/expenses from fees and commissions**	**2.604.550**	**2.553.018**	102,0
3.	Net profit/loss from changes in fair valus of FI	36.998	48.751	75,9
4.	Net profit/loss from reclasification of FI	-	-	-
5.	Net profit/loss from derecognition of FIs that are valued at fair value	201.317	94.325	213,4
6.	Net profit/loss from risk protection	-	-	-
7.	Net profit/loss from exchange gains and losses and effects of contractual currency clause	9.160	(1.060)	-
8.	Net profit/loss from impairment of FI derecognized at fair value through profit and loss account	1.637.952	(35.188)	-
9.	Net profit/loss from derecognition of FIs that are valued at depreciation value	(590.451)	-	-
10.	Net profit/loss from derecognition of investments in subsidiaries and joint ventures	-	-	-
11.	Other operating income	68.494	77.218	88,7
12.	**TOTAL NET OPERATING INCOME**	**10.275.152**	**8.966.944**	114,6
13.	**TOTAL NET OPERATING EXPENSES**	**-**	-	-
14.	Costs of salaries, compensation of salaries and other personal expenses	(2.177.607)	(2.202.516)	98,9
15.	Depreciation costs	(496.957)	(284.092)	174,9
16.	Other income	409.063	206.115	198,5
17.	Other expenses	(3.671.005)	(3.065.702)	119,7
18.	**PROFIT BEFORE TAX**	**4.338.646**	**3.620.749**	119,8
19.	**LOSS BEFORE TAX**	-	-	-
20.	Income tax	-	-	-
21.	Gains from deferred taxes	293	-	-
22.	Loss from deferred taxes	(147)	-	-
23.	**PROFIT AFTER TAX**	**4.338.792**	**3.620.749**	119,8
24.	**LOSS AFTER TAX**	-	-	-
25.	Net profit from discontinued operations	-	-	-
26.	Net loss from discontinued operations	-	-	-
27.	**RESULT OF THE PERIOD - PROFIT**	**4.338.792**	**3.620.749**	119,8
28.	**RESULT OF THE PERIOD - LOSS**	-	-	
29.	Profit belonging to the parent entity	-	-	
30.	Profit belonging to owners with no right to control	-	-	
31.	Loss belonging to the parent entity	-	-	
32.	Loss belonging to owners with no right to control	-	-	
33.	Earnings per share	-	-	
34.	Basic earnings per share	-	-	
35.	Reduced (diluted) earnings per share	-	-	

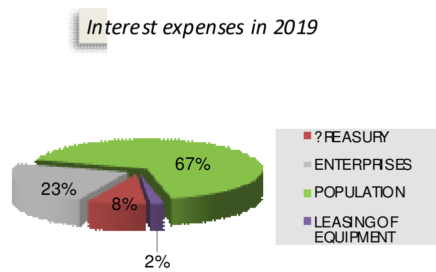
7.1. Interest income and expenses



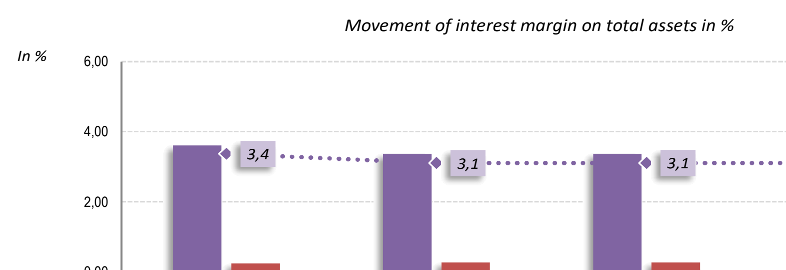
During the first two quarters of 2019, interest income amounted to RSD 6,307.1 million, which was an increase of 1.2% compared to the same period last year.

Compared to the same period last year, interest income increased by RSD 153.7 million or 2.3%, while interest expenses increased by RSD 76.5 million or 16.7%.





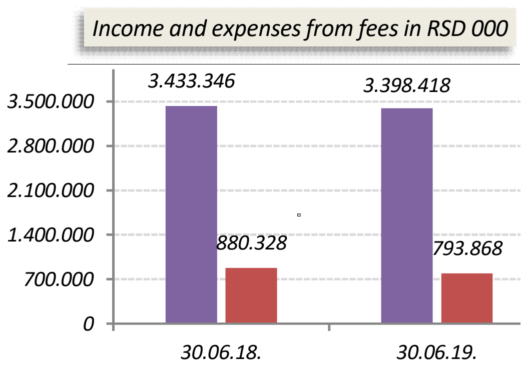
Within interest income, the largest share was from interest income from retail transactions (RSD 3,430.3 million or 50.1%). Within interest expenses, deposits from population also dominated (RSD 356.8 million or 66.8%), which is largely the result of interest expense on foreign currency savings.



	2018	apr	may
Average lending interest rate	3,6	3,4	3,4
Average borrowing interest rate	0,2	0,3	0,3
Average interest margin	3,4	3,1	3,1

At the end of the second quarter of 2019, average lending interest rate was 3.4% and borrowing interest rate was 0.3%, so the average interest margin of the Bank was 3.1% in the second quarter of 2019.

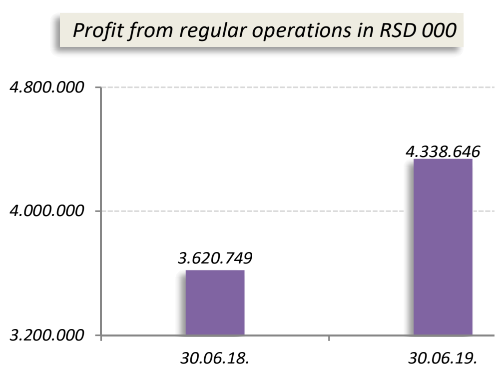
7.2. Income and expenses from fees



During the first two quarters of 2019, compared to the same period last year, income from fees and commissions for banking services decreased by 34.9 million dinars or by 1.0%. At the same time, expenses from fees and commissions were reduced by RSD 86.5 million or 9.8%.

Profit from fees and commissions for the first two quarters of 2019 was RSD 2,604.6 million and was RSD 51.5 million higher than in the same period last year.

7.3. Profit realised from regular operations



In the period 1 January to 30 June 2019, profit before tax amounted to RSD 4,338.6 million, which was an increase of RSD 717.9 million or an increase of 19.8% compared to the same period of the previous year.

The realised operating profit provided the Bank, in the second quarter of 2019, with a return on total equity of 12.8%, ie a return on average assets of 2.1%.

7.4. Performance indicators prescribed by the Law on Banks

No.	DESCRIPTION	PRESCRIBED	30 June 2019	2018
1.	CAPITAL ADEQUACY RATIO (CAPITAL / RISK ASSETS); *REQUEST FOR COMBINED CAPITAL BUFFER	MIN 8%+ccb*	30,09%	29,18%
2.	INDICATOR OF INVESTMENT IN PERSONS WHO ARE NOT IN THE FINANCIAL SECTOR AND FIXED ASSETS	MAX 60%	13,67%	13,18%
3.	INDICATOR OF THE BANK`S LARGE EXPOSURE	MAX 400%	27,49%	39,77%
4.	FOREIGN EXCHANGE RISK INDICATOR	MAX 20%	3,99%	1,87%
5.	LIQUIDITY RATIO (monthly, the last day in a month)	MIN 0.8	4,22	3,86

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

A detailed overview of the major risks and threats to which the Bank is exposed in the coming period is provided in the chapter Risk Management, Notes to the Financial Statements.

9. ALL SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

As of 30 June 2019 the parties related to the Bank were as follows:

1. Komercijalna Banka ad Podgorica, Montenegro,
2. Komercijalna Banka ad Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d. Beograd,
4. one legal person and a large number of natural persons, in accordance with the provisions of Article 2 of the Law on Banks in the part that regulates the term "parties related to the Bank".

Total exposure to the parties related to the Bank as at 30 June 2019 amounted to RSD 662.7 million, which represented 1.1% of the capital of RSD 62,148.7 million (the maximum value of total placements to all parties related to the Bank under the Law on Banks is 25% of the capital).

Most of the exposures to parties related to the Bank as at 30 June 2019 amounted to RSD 512.4 million, or 0.8% of the Bank's capital, and related to placements to KomBank INVEST ad Beograd.

In accordance with Article 37 of the Law on Banks, the Bank did not grant loans to parties related to the Bank on terms and conditions more favourable than the terms and conditions of granting loans to other parties not related to the Bank.

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

At the end of 2018, and during the first half of 2019, from the major business events, we set aside the session of the Shareholders Assembly of the Bank, repeated session held on 27 Feb. 2019 and regular session of the Shareholders Assembly held on 24 April 2019.

Prior to the aforementioned dates, the regular session of the Bank's Shareholders Assembly was scheduled for 28 January 2019 which was not held due to the absence of a quorum to hold the session. The following agenda was foreseen for the session:

1. Decision on the adoption of the Strategy and Business Plan of Komercijalna Banka ad Beograd for the period 2019-2021;
2. Decision on the correction of technical error in the decisions of the Assembly of the Bank No. 19521/3c and No. 19521/3d dated 17 October 2018.

At the repeated session of the Bank's Shareholders Assembly held on 27 Feb. 2019, the following decisions were adopted:

1. Decision on the adoption of the Strategy and Business Plan of Komercijalna Banka ad Beograd for the period 2019-2021.
2. Decision amending the Decision No. 19521/3c as of 17 Oct. 2018 - Aleksei Germanovich.
3. Decision amending the Decision No. 19521/3d as of 17 Oct. 2018 - Oleksandr Danyliuk.

The new regular session of the Bank's Shareholders Assembly was held on 24 April 2019 and the following decisions were adopted:

1. Decision on adoption of the Annual Report on the operations of Komercijalna Banka ad Beograd and the regular financial statements for 2018 with the opinion of the external auditor;
2. Decision on adoption of the Annual Report on the operations of the Group and consolidated financial statements of Komercijalna Banka ad Beograd for 2018 with the opinion of an external auditor;
3. Decision on distribution of profit from 2018 and retained earnings from previous years;
4. Decision on dismissal and appointment of the Chairman of the Board of Directors of Komercijalna Banka AD Beograd;
5. Decision on dismissal and appointment of a member of the Board of Directors of Komercijalna Banka AD Beograd;
6. Decision on appointment of a member of the Board of Directors of Komercijalna Banka AD Beograd.

On 31 May 2019 the Ministry of Finance of the Republic of Serbia announced a public invitation for collection of expression of interest for participation in the procedure of sale of shares in Komercijalna Banka ad Beograd through a tender. The privatization procedure enables the Ministry of Finance, after receiving the submissions of expression of interest, to decide on the type of tender procedure, in accordance with the relevant regulation governing this matter.

On 26 June 2019 a meeting was held at the Ministry of Finance by the Tender Commission which monitors the implementation of the procedure for the sale of shares owned by the Republic of Serbia at Komercijalna Banka ad Beograd, where the received submissions of expression of interest of potential buyers were discussed. The members of the said Commission confirmed that six submissions of expression of interest had been delivered in a timely manner and contained all the documentation provided for by the public invitation.

A description of the events after the balance sheet is presented in the Notes to the Financial Statements for the Second Quarter of 2019.

11. BASIC INFORMATION ON THE IMPLEMENTATION OF THE BUSINESS PLAN FOR 2019

Implementation of the Strategy and Business Plan for the first six months of 2019, took place within the following macroeconomic business conditions, including particularly:

- GDP growth of 2.5%, in the first quarter of 2019, compared to the same period of the previous year (SORS[8]),), the original plan for the whole 2019 year was a growth of 3.5% (IFRS[9]),
- stable movement of the dinar exchange rate around the level of 118 dinars per euro (planned exchange rate of the dinar against the euro at the end of the current year: 1 euro = 119.00 dinars (KB), and was realised on 30 June 2019: 1 euro = 117.91 dinars),
- the yoy inflation rate in June 2019 was 1.5% and had a slight downward trend (at the end of 2018 it was 2.0% yoy), the inflation rate is currently at the lower limit of the target rate for 2019 (3.0 % ± 1.5pp).

In 2018, according to the SORS data, GDP growth rate was 4.3%. The growth of economic activity was fueled by the growth of the service sector, with strong agricultural growth. Extensive investment cycle influenced the growth of construction activity, while the stable contribution of the total industry was largely determined by developments in the processing industry[10]. On the expenditure side of GDP, household consumption was as much a generator of growth as government spending. GDP growth of 3.5% is expected in 2019[11]. Limiting factors for GDP growth are the slowdown in global economic growth and directions of monetary policies of the leading central banks in the world, the European Central Bank and the United States Federal Reserve.

Total foreign trade in the period January-May 2019 amounted to 16.7 billion euros[12] (goods worth 7.1 billion euros were exported and goods worth 9.6 billion euros were imported), an increase of 8.3% and 10.8%, respectively,

8 Quarterly Gross Domestic Product in the Republic of Serbia, 1st quarter of 2019, Press notice, SORS
9 Fiscal Strategy for 2019 with Projections for 2020 and 2021, RS Ministry of Finance
10 Current Macroeconomic Trends, July 2019, RS Ministry of Finance
11 Fiscal Strategy for 2019 with Projections for 2020 and 2021, RS Ministry of Finance
12 Current Macroeconomic Trends, July 2019, RS Ministry of Finance

yoy. The most significant foreign trade partner in the same period was Germany, with a share of 12.8% in total foreign trade in goods. NBS foreign exchange reserves stood at EUR 11.7 billion at the end of May 2019[13] and increased by EUR 393.8 million compared to the end of 2018.

In the period January-May 2019, a fiscal surplus of RSD 4.9 billion was achieved at the general government level[14]. Public debt at the end of May 2019 amounted to EUR 23.7 billion[15] or 51.8% of GDP.

In the first five months of 2019, the net inflow of foreign direct investment (FDI) reached EUR 1.4 billion[16], an increase of 14.6% yoy. Over the first five months of 2019, the largest part of FDI was equity investments, while the projection of total investments for the whole 2019 is around EUR 2.4 billion[17].

NBS's monetary policy easing activity, from mid-2013 until now, has led to a decline in interest rates on dinar loans to corporate and retail clients. Interest rates on newly approved RSD loans in May 2019 were 5.1% for corporate clients and 10.0% for retail clients[18]. Also, interest rates on existing loans have fallen, which has led to an increase in available funds for other corporate and retail consumption.

Banks continued the upward trend in lending activity of 9.8% yoy during May 2019, whereby the growth of loans to retail clients amounted to 11.2% yoy, the growth of loans to corporate clients amounted to 8.3%[19] yoy. In the continuation of the business year, banks` lending activities are expected to continue to grow, given the expected, sustainable growth of GDP, competition among banks in the market, favourable developments in the labour market, a decrease in NPLs and low interest rates in the euro area.

11.1. Planned and realised values of the balance sheet for the second quarter of 2019

Realised and planned items of the balance sheet assets and liabilities have the following values:

(In RSD million)

No.	ITEM	Plan 31 Dec. 2019	Realised 30 June 2019	INDICES
1	2	3	4	5=4/3*100
	ASSETS			
1.	Cash and cash equivalents	60.170	64.075	106,5
2.	Securities	119.563	132.061	110,5
3.	**Loans granted** (3.1.+3.2.+3.3.)	**208.476**	**178.996**	85,9
3.1.	Corporate	99.695	77.120	77,4
3.2.	Retail	103.527	94.922	91,7
3.3.	Banks and financial organisations	5.254	6.954	132,4
4.	Other assets	28.519	37.143	130,2
5.	**TOTAL ASSETS** (1.+2.+3.+4.)	**416.729**	**412.275**	98,9

13 Current Macroeconomic Trends, May 2019, RS Ministry of Finance
14 Notice, 5 July 2019, RS Ministry of Finance
15 Public Debt of the RS, table 5, 5 July 2019, RS Ministry of Finance
16 Macroeconomic Trends in Serbia, July 2019, NBS
17 Macroeconomic Trends in Serbia, July 2019, NBS
18 Macroeconomic Trends in Serbia, July 2019, NBS
19 Macroeconomic Trends in Serbia, July 2019, NBS

	LIABILITIES			
1.	**Deposits** (1.1.+1.2.+1.3.)	**335.744**	**323.364**	96,3
1.1.	Corporate	55.374	47.351	85,5
1.2.	Retail	272.759	267.658	98,1
1.3.	Banks and financial organisations	7.611	8.355	109,8
2.	Other liabilities	10.156	19.890	195,8
3.	**Total liabilities** (1.+2.)	**345.900**	**343.254**	99,2
4.	**Total capital**	**70.829**	**69.021**	97,4
5.	**TOTAL LIABILITIES** (3.+4.)	**416.729**	**412.275**	98,9

Total balance sheet assets of the Bank at the end of the second quarter of 2019 amounted to RSD 412,275.1 million and decreased by RSD 4,453.8 million or 1.1% compared to the plan for the end of the year.

Investments in securities at the end of the second quarter of 2019 were above the planned level for the whole year by 10.5%, primarily due to less realised lending activity than the planned one.

Loans to clients at the end of the second quarter of 2019 amounted to RSD 178,996.2 million. In order to achieve the planned annual level of loans granted to clients, it is necessary for the Bank to place funds in the amount of 29,480.2 million dinars in the next two quarters, or to achieve an increase in placements of 16.5%.

Over the next two quarters of 2019, it is necessary to increase the total deposits in the amount of RSD 12,380.6 million, or a return on deposits of 3.8%. The largest growth is expected on corporate deposits, an increase of RSD 8,022.7 million or 16.9% and on retail deposits, an expected increase is RSD 5,101.4 million or 1.9%.

As at 30 June 2019, other liabilities were above the annual planned values by 95.8%, so in the next two quarters the expected decrease in the item liabilities amounts to RSD 9,733.8 million.
Exchange rate trend of dinar against euro, appreciation (0.2%) at the end of the second quarter of the current year, to a certain extent influenced deviation of the realised values from the planned ones.

11.2. Planned and realised values of the profit & loss account for the period 1 January to 30 June 2019

(In RSD million)

No.	*ITEM*	*Plan 1 Jan.-30 June 2019*	*Realised 1 Jan.-30 June 2019*	*INDICES*
1	*2*	*3*	*4*	*5=4/3*100*
1.1.	Interest income	6.933	6.841	98,7
1.2.	Interest expenses	(514)	(534)	103,8
1.	**Profit from interest** (1.1.-1.2.)	**6.419**	**6.307**	98,3
2.1.	Income from fees and commissions	3.595	3.398	94,5
2.2.	Expenses from fees and commissions	(711)	(794)	111,7
2.	**Profit from fees and commissions** (2.1. -2.2.)	**2.884**	**2.605**	90,3
3.	Net foreign exchange gains and losses and changes in value (foreign exchange clause)	0	9	-
4.	Net other operating income and expenses	29	(1.042)	-
5.	Net profit/loss from impairment of FI derecognized at fair value through profit and loss account	(332)	1.638	-
6.	Operating expenses	(5.537)	(5.178)	93,5
7.	**PROFIT FROM REGULAR OPERATIONS**	**3.463**	**4.339**	125,3

As regards items of profit and loss account, a significant deviation of planned and realised values was recorded in net expenses due to impairment of financial assets derecognized at fair value through profit and loss account (net income amounted to RSD 1,638.0 million while planned net expenses were RSD 331.8 million).

The item profit from fees was lower than the planned one by RSD 112.2 million or was lower by 1.7%. Profit from fees and commissions during the first two quarters of 2019 was lower than the planned one by 279.4 million dinars.

Operating expenses in the observed period amounted to RSD 5,178.2 million and were lower than the planned ones by RSD 358.6 million or 6.5%, as a result of further rationalization of operating costs.

The Bank achieved a profit before tax in the amount of 4,338.6 million which is 875.3 million dinars or 25.3% above the planned value for the first six months of 2019, mainly due to realisation of net income from impairment of FI derecognized at fair value through profit and loss account.

Signed on behalf of Komercijalna Banka a.d. Beograd

Igor Krsmanović	Miroslav Perić, PhD
Deputy Director of the Controlling and Planning Division	Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД 4 БЕОГРАД

BALANCE SHEET

on 30.06.2019.

(in RSD thousand)

POSITION	ADP code	Amount: Current year ammount	Amount: Previous year ammount
1	2	3	4
ASSETS			
ASSETS Cash and assets held with central bank	0001	64.074.823	63.595.710
Pledged financial assets	0002	-	-
Receivables under derivatives	0003	-	4.070
Securities	0004	132.061.405	133.177.598
Loans and receivables from banks and other financial organisations	0005	22.713.795	18.477.729
Loans and receivables from clients	0006	172.494.006	167.545.674
Change in fair value of hedged items	0007	-	-
Receivables under hedging derivatives	0008	-	-
Investments in associated companies and joint ventures	0009	-	-
Investments into subsidiaries	0010	3.438.573	2.611.859
Intangible investments	0011	690.342	557.051
Property, plant and equipment	0012	6.613.419	5.619.078
Investment property	0013	1.877.137	1.896.347
Current tax assets	0014	-	-
Deferred tax assets	0015	1.433.502	840.967
Non-current assets held for sale and discontinued operations	0016	227.630	227.630
Other assets	0017	6.650.427	6.612.267
TOTAL ASSETS (from 0001 to 0017)	0018	412.275.059	401.165.980
LIABILITIES			
LIABILITIES Liabilities under derivatives	0401	-	-
Deposits and other liabilities to banks, other financial organisations and central bank	0402	4.340.011	5.662.748
Deposits and other financial liabilities to clients	0403	321.757.210	317.229.084
Liabilities under hedging derivatives	0404	-	-
Change in fair value of hedged items	0405	-	-
Liabilities under securities	0406	-	-
Subordinated liabilities	0407	-	-
Provisions	0408	2.344.530	1.653.663
Liabilities under assets held for sale and discontinued operations	0409	-	-
Current tax liabilities	0410	-	-
Deferred tax liabilities	0411	752.901	-
Other liabilities	0412	14.059.042	9.059.972
TOTAL LIABILITIES (from 0401 to 0412)	0413	343.253.694	333.605.467
CAPITAL			
CAPITAL Share capital	0414	40.034.550	40.034.550
Own shares	0415	-	-
Profit	0416	5.257.301	9.047.691
Loss	0417	-	-
Reserves	0418	23.729.514	18.478.272
Unrealized losses	0419	-	-
Non-controlling participation	0420	-	-
TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0	0421	69.021.365	67.560.513
TOTAL CAPITAL SHORTFALL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0	0422	0	0
TOTAL LIABILITIES (0413 + 0421 - 0422)	0423	412.275.059	401.165.980

from 01.01.2019. to 30.06.2019.

INCOME STATEMENT

(in RSD thousand)

POSITION	ADP code	Amount – Current year – 01.04.-30.06.	Amount – Current year – 01.01.-30.06.	Amount – Previous year – 01.04.-30.06.	Amount – Previous year – 01.01.-30.06.
1	2	3*	4**	5	6
Interest income	1001	3.432.942	6.840.919	3.356.553	6.687.184
Interest expenses	1002	257.376	533.787	224.891	457.304
Net interest gains (1001-1002)	1003	3.175.566	6.307.132	3.131.662	6.229.880
Net interest losses (1002-1001)	1004	-	-	-	-
Income from fees and commissions	1005	1.812.385	3.398.418	1.817.676	3.433.346
Expenses on fees and commissions	1006	423.917	793.868	466.218	880.328
Net gains from fees and commissions (1005 - 1006)	1007	1.388.468	2.604.550	1.351.458	2.553.018
Net losses on fees and commissions (1006 - 1005)	1008	-	-	-	-
Net gains from changes in fair value of financial instruments	1009	13.295	36.998	3.769	48.751
Net losses from changes in fair value of financial instruments	1010	-	-	-	-
Net gains on reclassification of financial instruments	1011	-	-	-	-
Net losses on reclassification of financial instruments	1012	-	-	-	-
Net gains from derecognition of the financial instruments measured at fair value	1013	142.948	201.317	56.931	94.325
Net losses on derecognition of the financial instruments measured at fair value	1014		-	-	
Net gains from hedging	1015	-	-	-	-
Net losses on hedging	1016	-	-	-	-
Net exchange rate gains and gains from agreed currency clause	1017	4.072	9.160	8.361	-
Net exchange rate losses and losses on agreed currency clause	1018	-	-	-	1.060
Net income from reduction in impairment of financial assets not measured at fair value through income statement	1019	1.195.873	1.637.952	-	-
Net expenses on impairment of financial assets not measured at fair value through income statement	1020	-	-	266.229	35.188
Net gains from derecognition of the financial instruments measured at amortised cost	1021	-	-	-	-
Net losses on derecognition of the financial instruments measured at amortised cost	1022	590.451	590.451	-	-
Net gains from derecognition of investments in associated companies and joint ventures	1023	-	-	-	-
Net losses on derecognition of investments in associated companies and joint ventures	1024	-	-	-	-
Other operating income	1025	36.192	68.494	38.767	77.218
TOTAL NET OPERATING INCOME (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1026	5.365.963	10.275.152	4.324.719	8.966.944
TOTAL NET OPERATING EXPENSES (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1027	-	-	-	-
Salaries, salary compensations and other personal expenses	1028	1.096.621	2.177.607	1.098.649	2.202.516
Depreciation costs	1029	247.752	496.957	138.887	284.092
Other income	1030	117.627	409.063	133.445	206.115
Other expenses	1031	1.469.063	3.671.005	1.586.725	3.065.702
PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1032	2.670.154	4.338.646	1.633.903	3.620.749
LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0	1033	-	-	-	-
Profit tax	1034	-	-	-	-
Gains from deferred taxes	1035	293	293	-	
Losses on deferred taxes	1036	147	147	-	-
PROFIT AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0	1037	2.670.300	4.338.792	1.633.903	3.620.749
LOSSES AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) < 0	1038	-	-	-	-
Net profit from discontinued operations	1039	-	-	-	-
Net losses on discontinued operations	1040	-	-	-	-
RESULT FOR THE PERIOD – PROFIT (1037 - 1038 + 1039 - 1040) ≥ 0	1041	2.670.300	4.338.792	1.633.903	3.620.749
RESULT FOR THE PERIOD – LOSSES (1037 - 1038 + 1039 - 1040) < 0	1042	-	-	-	-
Profit belonging to a parent entity	1043	-	-	-	-
Profit belonging to non-controlling owners	1044	-	-	-	-
Losses belonging to a parent entity	1045	-	-	-	-
Losses belonging to non-controlling owners	1046	-	-	-	-
EARNINGS PER SHARE					
Basic earnings per share (in dinars, without paras)	1047	-	-	-	-
Diluted earnings per share (in dinars, without paras)	1048	-	-	-	-

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

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД

from 01.01.2019. to 30.06.2019.

STATEMENT OF OTHER COMPREHENSIVE RESULT

(in RSD thousand)

POSITION	ADP code	Amount			
		Current year		Previous year	
		01.04.-30.06.	01.01.-30.06.	01.04.-30.06.	01.01.-30.06.
1	2	3*	4**	5	6
PROFIT FOR THE PERIOD	2001	2.670.300	4.338.792	1.633.903	3.620.749
LOSS FOR THE PERIOD	2002	-	-	-	-
Other comprehensive income for the period **Components of other comprehensive income which cannot be reclassified to profit or loss:** Increase in revaluation reserves based on intangible assets and fixed assets	2003	-	-	-	-
Decrease in revaluation reserves based on intangible assets and fixed assets	2004	-	-	-	-
Actuarial gains	2005	-	-	-	-
Actuarial losses	2006	-	-	-	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	2007	177.905	458.739	181.539	218.132
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	2008	-	-		-
Unrealised gains from equity hedges measured at fair value through other comprehensive income	2009	-	-	-	-
Unrealised losses from equity hedges measured at fair value through other comprehensive income	2010	-	-	-	-
Unrealised gains from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2011	-	-	-	-
Unrealised losses from bank's financial liabilities measured at fair value through profit or loss attributable to changes in bank's creditworthiness	2012	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2013	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may not be reclassified to profit or loss	2014	-	-	-	-
Components of other comprehensive income that may be reclassified to profit or loss: Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	2015	1.381.276	611.343	-	-
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	2016	-	-	126.491	89.142
Gains from cash flow hedges	2017	-	-	-	-
Losses from cash flow hedges	2018	-	-	-	-
Unrealised gains from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2019	-	-	-	-
Unrealised losses from calculation of foreign currency transactions and balances and translation of result and financial position of foreign operation	2020	-	-	-	-
Unrealised gains from hedge of net investments in foreign operations	2021	-	-	-	-
Unrealised losses from hedge of net investments in foreign operations	2022	-	-	-	-
Unrealised gains from other hedging instruments	2023	-	-	-	-
Unrealised losses from other hedging instruments	2024	-	-	-	-
Positive effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2025	-	-	-	-
Negative effects of changes in value arising from other items of other comprehensive income that may be reclassified to profit or loss	2026	-	-	-	-
Tax gains relating to other comprehensive income for the period	2027			13.371	13.371
Tax losses relating to other comprehensive income for the period	2028	233.877	160.512	21.629	32.720
Total positive other comprehensive income (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) ≥ 0	2029	**1.325.304**	**909.570**	**46.790**	**109.641**
Total negative comprehensive income 2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 - 2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2018 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 +2027 - 2028) < 0	2030	-	-	-	-
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2031	**3.995.604**	**5.248.362**	**1.680.693**	**3.730.390**
TOTAL NEGATIVE COMPREHENSIVE INCOME FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2032	-	-	-	-
Total positive comprehensive income for the period attributable to the parent entity	2033	-	-	-	-
Total positive comprehensive income for the period attributable to non-controlling owners	2034	-	-	-	-
Total negative comprehensive income for the period attributable to the parent entity	2035	-	-	-	-
Total negative comprehensive income for the period attributable to non-controlling owners	2036	-	-	-	-

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

CASH FLOW STATEMENT

from 01.01.2019. to 30.06.2019.

(in RSD thousand)

	POSITION	ADP code	Amount 01.01.-30.06.2019.	01.01-30.06.2018.
	1	2	3*	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
I.	**Cash inflow from operating activities (from 3002 to 3005)**	3001	12.470.997	11.399.593
1.	Interest	3002	8.192.185	7.576.115
2.	Fees	3003	3.443.954	3.459.497
3.	Other operating income	3004	831.831	361.510
4.	Dividends and profit sharing	3005	3.027	2.471
II.	**Cash outflow from operating activities (from 3007 to 3011)**	3006	5.847.250	5.925.884
5.	Interest	3007	408.850	428.437
6.	Fees	3008	754.039	881.090
7.	Gross salaries, salary compensations and other personal expenses	3009	1.836.097	1.837.097
8.	Taxes, contributions and other duties charged to income	3010	407.557	388.007
9.	Other operating expenses	3011	2.440.707	2.391.253
III.	**Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006)**	3012	6.623.747	5.473.709
IV.	**Net cash outflow from operating activities before an increase or decrease in financial assets and financial liabilities (3006 - 3001)**	3013	-	-
V.	**Decrease in financial assets and increase in financial liabilities (from 3015 to 3020)**	3014	3.482.880	17.655.919
10.	Decrease in loans and receivables from banks, other financial organisations, central bank and clients	3015	-	5.909.887
11.	Decrease in receivables under securities and other financial assets not intended for investment	3016	-	-
12.	Decrease in receivables under hedging derivatives and change in fair value of hedged items	3017	-	-
13.	Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	3018	3.482.880	11.746.032
14.	Increase in other financial liabilities	3019	-	-
15.	Increase in liabilities under hedging derivatives and change in fair value of hedged items	3020	-	-
VI.	**Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)**	3021	5.017.236	425.173
16.	Increase in loans and receivables from banks, other financial organisations, central bank and clients	3022	2.965.123	-
17.	Increase in receivables under securities and other financial assets not intended for investment	3023	2.052.113	418.108
18.	Increase in receivables under hedging derivatives and change in fair value of hedged items	3024	-	-
19.	Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients	3025	-	0
20.	Decrease in other financial liabilities	3026	-	7.065
21.	Decrease in liabilities under hedging derivatives and change in fair value of hedged items	3027	-	-
VII.	**Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)**	3028	5.089.391	22.704.455
VIII.	**Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)**	3029	-	-
22.	Profit tax paid	3030	-	-
23.	Dividends paid	3031	-	-
IX.	**Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)**	3032	5.089.391	22.704.455
X.	**Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)**	3033	-	-
B.	**CASH FLOWS FROM INVESTMENT ACTIVITIES**			
I.	**Cash inflow from investing activities (from 3035 to 3039)**	3034	37.959.191	28.666.302
1.	Investment in investment securities	3035	37.959.191	28.666.302
2.	Sale of investments into subsidiaries and associated companies and joint ventures	3036	-	-
3.	Sale of intangible investments, property, plant and equipment	3037	-	-
4.	Sale of investment property	3038	-	-
5.	Other inflow from investing activities	3039	-	-
II.	**Cash outflow from investing activities (from 3041 to 3045)**	3040	35.782.963	41.304.810
6.	Investment into investment securities	3041	35.410.067	41.105.971
7.	Purchase of investments into subsidiaries and associated companies and joint ventures	3042	-	-
8.	Purchase of intangible investments, property, plant and equipment	3043	372.896	195.531
9.	Purchase of investment property	3044	-	-
10.	Other outflow from investing activities	3045	-	3.308
III.	**Net cash inflow from investing activities (3034 - 3040)**	3046	2.176.228	-
IV.	**Net cash outflow from investing activities (3040 - 3034)**	3047	-	12.638.508
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
I.	**Cash inflow from financing activities (from 3049 to 3054)**	3048	36.344.769	42.768.545
1.	Capital increase	3049	-	-
2.	Subordinated liabilities	3050	-	-
3.	Loans taken	3051	36.344.769	42.768.545
4.	Issuance of securities	3052	-	-
5.	Sale of own shares	3053	-	-
6.	Other inflow from financing activities	3054	-	-
II.	**Cash outflow from financing activities (from 3056 to 3060)**	3055	36.493.083	45.969.979
7.	Purchase of own shares	3056	-	-
8.	Subordinated liabilities	3057	-	-
9.	Loans taken	3058	36.306.956	45.969.979
10.	Issuance of securities	3059	-	-
11.	Other outflow from financing activities	3060	186.127	-
III.	**Net cash inflow from financing activities (3048 - 3055)**	3061	-	-
IV.	**Net cash outflow from financing activities (3055 - 3048)**	3062	148.314	3.201.434
D.	**TOTAL CASH INFLOWS (3001 + 3014 + 3034 + 3048)**	3063	90.257.837	100.490.359
E.	**TOTAL CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055)**	3064	83.140.532	93.625.846
F.	**NET INCREASE IN CASH (3063 - 3064)**	3065	7.117.305	6.864.513
G.	**NET DECREASE IN CASH (3064 - 3063)**	3066	-	-
H.	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**	3067	40.375.748	26.314.898
I.	**EXCHANGE RATE GAINS**	3068	228.411	22.927
J.	**EXCHANGE RATE LOSSES**	3069	199.436	-
K.	**CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)**	3070	47.522.028	33.202.338

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

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STATEMENT OF CHANGES IN EQUITY

from 01.01.2019 to 30.06.2019

(in RSD thousand)

ITEM	ADP code	Share capital and other equity (accounts 800, 801,803, 809)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (group of accounts 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Non-controlling participation	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (columnS 2-3+4+5+6-7+8-9+10)<0
1		2		3		4		5		6		7		8		9		10		11		12
Opening balance as at 1 January of the previous year	4001	17.191.466	4033		4065	22.843.084	4097	11.061.535	4129	4.030.259	4147	3.538	4165	8.137.249	4203	0	4241		4285	63.260.055	4291	
Effects of the first implementation of new IFRS - increase	4002		4034		4066		4098		4130	176.617	4148		4166		4204		4242					
Effects of the first implementation of new IFRS – decrease	4003		4035		4067		4099		4131		4149	3.538	4167	1.161.693	4205		4243					
Changes in accounting policies and correction of prior period error – increase	4004		4036		4068		4100		4132		4150		4168		4206		4244					
Changes in accounting policies and correction of prior period error – decrease	4005		4037		4069		4101		4133		4151		4169		4207		4245					
The adjusted opening balance as at 1 January of the previous year (No 1+2-3)	4006	17.191.466	4038	0	4070	22.843.084	4102	11.061.535	4134	4.206.876	4152	0	4170	6.975.556	4208	0	4246		4286	62.278.517		
Total positive other comprehensive income for the period									4135	47.851	4153				x		4247					
Total negative other comprehensive income for the period									4136		4154				x		4248					
Profit for the current year													4171	8.145.182	x		4249					
Loss for the current year															4209		4250					
Transfer from provisions to retained earnings due to provisions reversal – increase													4172		4210		4251					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4173		4211		4252					
Transactions with owners recognized directly in equity – increase	4007		4039		4071		4103						4174		4212		4253					
Transactions with owners recognized directly in equity – decrease	4008		4040		4072		4104						4175		4213		4254					
Distribution of profit – increase	4009		4041		4073		4105	3.162.000					4176		4214		4255					
Distribution of profit and/or coverage of losses – decrease	4010		4042		4074		4106						4177	3.162.000	4215		4256					
Dividend payments	4011		4043		4075		4107						4178	2.535.916	4216		4257					
Other – increase	4012		4044		4076		4108						4179	23.506	4217		4258					
Other – decrease	4013		4045		4077		4109						4180	396.640	4218		4259					
Total transactions with owners (No 11-12+13-14-15+16-17) ≥ 0	4014	0	4046	0	4078	0	4110	3.162.000					4181	0	4219	0	4260					
Total transactions with owners (No 11-12+13-14-15+16-17) < 0	4015	0	4047	0	4079	0	4111	0					4182	8.073.047	4220	0	4261					
Balance as at 31 December of the previous year (No 4+5-6+7+8+9-10+18-19 for columns 2,3,4,5,6,8,9), for column 7 (No 4+6-5)	4016	17.191.466	4048	0	4080	22.843.084	4112	14.223.535	4137	4.254.737	4155	0	4183	9.047.691	4221	0	4262		4287	67.560.513	4293	
Opening balance as at 1 January of the current year	4017	17.191.466	4049		4081	22.843.084	4113	14.223.535	4138	4.254.737	4156	0	4184	9.047.691	4222	0	4263		4288	67.560.513	4294	
Effects of the first implementation of new IFRS - decrease	4018		4050		4082		4114		4139		4157		4185		4223		4264					
Effects of the first implementation of new IFRS - decrease	4019		4051		4083		4115		4140		4158	0	4186		4224		4265					
Changes in accounting policies and correction of prior period error – increase	4020		4052		4084		4116		4141		4159		4187		4225		4266					
Changes in accounting policies and correction of prior period error – decrease	4021		4053		4085		4117		4142		4160		4188		4226		4267					
Adjusted opening balance as at 1 January of the current year (No 21+22-23)	4022	17.191.466	4054	0	4086	22.843.084	4118	14.223.535	4143	4.254.737	4161	0	4189	9.047.691	4227	0	4268		4289	67.560.513	4295	
Total positive other comprehensive income for the period									4144	909.570	4162				x		4269					
Total negative other comprehensive income for the period									4145	0	4163				x		4270					
Profit for the current year													4190	4.338.792	x		4271					
Loss for the current year															4228		4272					
Transfer from provisions to retained earnings due to provisions reversal – increase													4191		4229		4273					
Transfer from provisions to retained earnings due to provisions reversal – decrease													4192		4230		4274					
Transactions with owners recognized directly in equity – increase	4023		4055		4087		4119						4193		4231		4275					
Transactions with owners recognized directly in equity – decrease	4024		4056		4088		4120						4194		4232		4276					
Distribution of profit – increase	4025		4057		4089		4121	4.341.672					4195		4233		4277					
Distribution of profit and/or coverage of losses – decrease	4026		4058		4090		4122						4196	4.341.672	4234		4278					
Dividend payments	4027		4059		4091		4123						4197	3.258.073	4235		4279					
Other – increase	4028		4060		4092		4124						4198		4236		4280					
Other – decrease	4029		4061		4093		4125						4199	529.437	4237		4281					
Total transactions with owners (No 31-32+33-34-35+36- 37) ≥ 0	4030	0	4062	0	4094	0	4126	4.341.672		0			4200	0	4238	0	4282					
Total transactions with owners (No 31-32+33-34-35+36- 37) < 0	4031	0	4063	0	4095	0	4127	0		0			4201	8.129.182	4239	0	4283					
Balance as at 30 June of the current year (No 24+25-26+27+28+29-30+38-39 for columns 2,3,4,5,6,8,9), for column 7 (No 24+26-25)	4032	17.191.466	4064	0	4096	22.843.084	4128	18.565.207	4146	5.164.307	4164	0	4202	5.257.301	4240	0	4284		4290	69.021.365	4296	

NOTES

TO FINANCIAL STATEMENTS FOR THE SECOND QUARTER 2019

Belgrade, August 2019

1. INCORPORATION AND OPERATION OF THE BANK

Komercijalna Banka AD Beograd (hereinafter referred to as "Bank") was incorporated on 1st December 1970, and transformed into a joint-stock company on 6th May 1992.

As of 30.06.2019, the largest voting shareholders of the Bank are:
1. Republic of Serbia and
2. EBRD, London
The Bank has three subsidiaries with the following percentage holdings in their respective ownership:

- 100% - Komercijalna Banka AD Podgorica, Montenegro
- 100% - KomBank INVEST AD, Serbia
- 99.99 % - Komercijalna Banka AD Banja Luka, Bosnia and Herzegovina.

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

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

As at 30 June 2019, he Bank consists of the Head Office in Belgrade at 14, Svetog Save Street, 6 business centres, three sectors for work with small and medium-sized enterprises, 1 branch and 203 sub-branches.

As of 30 June 2019 the Bank had 2,757 employees, and as of 31 December 2018 it had 2,766 employees. Tax ID number of the Bank is 100001931.

2. BASES FOR FINANCIAL STATEMENTS PREPARATION AND PRESENTATION

2.1. Statement of Compliance

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

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

When preparing and presenting periodic financial statements for 2018, the implementation of the IFRS 9 standard resulted in amendments to the NBS legislation that obliged banks to apply new forms of financial statements with the starting date of 1st January 2018.

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

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

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

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

When creating quarterly financial statements for 2019, the Bank applied new Accounting policies to the part referring to financial instruments and possibility of allocation of credit losses for all accounting periods which record benefits from assets, which is a prerequisite for determining an accurate result.

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

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

2.2. Rules of assessment of financial instruments

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

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

At the time of first implementation of IFRS 16, right to use the leasing asset is generally measured in the amount of liabilities based on leasing, using the average incremental borrowing rate. The first implementation resulted in recording the liabilities arising from leasing in the amount of RSD 1,349,455 thousand, and therefore, the right to use the asset in preliminary amount of RSD 1,349,455 thousand in Balance Sheet as of 01 January 2019.

Subsequent valuation of lease asset and liability:

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

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

Subsequently, recognised purchase value is reduced by:

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

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

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

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

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

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

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

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

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

2.2.1. Financial assets

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

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

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

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

Financial assets may be classified into the following categories:

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

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

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

2.2.2. Financial liabilities

Financial liability is any contracted liability of the Bank:

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

2.3. Functional and Reporting Currency

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

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

BALANCE SHEET

The structure of the Bank's balance sheet as of 30 June 2019, with comparative data for 2018, prepared in the format prescribed by the Decision on Forms and the Contents of Items in the Forms for Financial Statements of Banks (RS Official Gazette 101/2017, 38/2018 and 103/2018), apples from 1st January 2018 and can be seen in more detail from the following overview:

In thousand RSD

	30.06.2019.		31.12.2018.	
ASSETS	Amount	%	Amount	%
Cash and cash funds held with the central bank	64,074,823	15.54	63,595,710	15.85
Receivables under derivatives	-	-	4,070	-
Securities	132,061,405	32.03	133,177,598	33.20
Loans and receivables due from banks and other financial organizations	22,713,795	5.51	18,477,729	4.61
Loans and receivables from customers	172,494,006	41.84	167,545,674	41.76
Investments in subsidiaries	3,438,573	0.83	2,611,859	0.65
Intangible assets	690,342	0.17	557,051	0.14
Property, plant and equipment	6,613,419	1.60	5,619,078	1.40
Investment property	1,877,137	0.46	1,896,347	0.47
Deferred tax assets	1,433,502	0.35	840,967	0.21
Non-current assets held for sale and assets from discontinued operations	227,630	0.06	227,630	0.06
Other assets	6,650,427	1.61	6,612,267	1.65
TOTAL ASSETS A	**412,275,059**	**100.00**	**401,165,980**	**100.00**

LIABILITIES	Amount	%	Amount	%
Deposits and other fin. liabilities to banks, other fin. organisations and the Central Bank	4,340,011	1.05	5,662,748	1.41
Deposits and other fin. liabilities to other customers	321,757,210	78.04	317,229,084	79.08
Provisions	2,344,530	0.57	1,653,663	0.41
Deferred tax liabilities	752,901	0.18	-	-
Other liabilities	14,059,042	3.41	9,059,972	2.26
Total liabilities	343,253,694	83.25	333,605,467	83.16
Capital				
Share capital	40,034,550	9.71	40,034,550	9.98
Profit	5,257,301	1.28	9,047,691	2.25
Reserves	23,729,514	5.76	18,478,272	4.61
Total capital	**69,021,365**	**16.75**	**67,560,513**	**16.84**
TOTAL LIABILITIES	**412,275,059**	**100.00**	**401,165,980**	**100.00**

INCOME STATEMENT

Income and expense structure for 2019 as follows:

In thousand RSD

	30.06.2019.	30.06.2018.
INCOME	Total	Total
Interest income	6,840,919	6,687,184
Interest expenses	(533,787)	(457,304)
Net interest income	**6,307,132**	**6,229,880**
Fee and commission income	3,398,418	3,433,346
Fee and commission expenses	(793,868)	(880,328)
Net fee and commission income	**2,604,550**	**2,553,018**
Net gain from changes in fair value of financial instruments	36,998	48,751
Net gain based on derecognition of financial instruments that are measured at fair value	201,317	94,325
Net income from exchange differentials and the effects of agreed currency clause	9,160	-
Net expense from exchange differentials and the effects of agreed currency clause	-	(1,060)
Net income from reduced impairment of financial assets that are not measured at fair value through P&L	1,637,952	-
Net expense from impairment of financial assets that are not measured at fair value through P&L	-	(35,188)
Net loss from derecognition of financial instruments that are valued at amortised cost	(590,451)	-
Other operating income	68,494	77,218
Total net operating income	**10,275,152**	**8,966,944**
Cost of salaries, allowances and other personnel expenses	(2,177,607)	(2,202,516)
Depreciation cost	(496,957)	(284,092)
Other income	409,063	206,115
Other expenses	(3,671,005)	(3,065,702)

Profit /loss before tax	**4,338,646**	**3,620,749**
Profit from deferred tax	**293**	**-**
Loss from deferred tax	**147**	**-**
Result for the period (profit /loss)	**4,338,792**	**3,620,749**

CASH FLOW STATEMENT

Cash flows achieved in 2019 are shown in the table below:

In thousand RSD

	30.06.2019.	30.06.2018.
Item	Total	Total
Cash inflows from operating activities	**12,470,997**	**11,399,593**
Inflow from interest	8,192,185	7,576,115
Inflow from fees	3,443,954	3,459,497
Inflow from other operating activities	831,831	361,510
Inflow from dividends and share in profit	3,027	2,471
Cash outflows from operating activities	**(5,847,250)**	**(5,925,884)**
Outflow from interest payments	(408,850)	(428,437)
Outflow from fee payments	(754,039)	(881,090)
Outflows from payments for gross salaries, allowances and other personnel expenses	(1,836,097)	(1,837,097)
Outflow from taxes, contributions and other duties charged to expense	(407,557)	(388,007)
Outflows for other operating expenses	(2,440,707)	(2,391,253)
Net cash inflow from operating activities before increase or decrease in financial assets and financial liabilities	**6,623,747**	**5,473,709**
Decrease in financial assets and increase in financial liabilities	**(3,482,880)**	**(17,655,919)**
Decrease in loans and other receivables from banks and other financial organizations, central bank and customers	-	(5,909,887)
Increase in deposits and other financial liabilities towards banks and other financial organizations, central bank and customers	(3,482,880)	(11,746,032)
Increase in financial assets and decrease in financial liabilities	**5,017,236**	**425,173**
Increase in loans and receivables from banks, other financial organisations, central bank and customers	2,965,123	-
Increase in receivables based on securities and other financial assets not intended for investment	2,052,113	418,108
Decrease in other financial liabilities	-	7,065

Item	30.06.2019. Total	30.06.2018. Total
Net inflow of cash from operating activities before profit tax	**5,089,391**	**22,704,455**
Net outflow of cash from operating activities before profit tax	**-**	**-**
Net inflow of cash from operating activities	**5,089,391**	**22,704,455**
Net outflow of cash from operating activities	**-**	**-**
Cash inflow from investment activities	**37,959,191**	**28,666,302**
Inflow from investment securities	37,959,191	28,666,302
Cash outflow from investment activities	**(35,782,963)**	**(41,304,810)**
Outflow from investing in investment securities	(35,410,067)	(41,105,971)
Outflow for purchase of intangible assets, property, plants and equipment	(372,896)	(195,531)
Other outflows from investment activities	-	(3,308)
Net inflow of cash from investment activities	**2,176,228**	**-**
Net outflow of cash from investment activities	**-**	**(12,638,508)**
Cash inflow from financing activity	**36,344,769**	**42,768,545**
Inflow from borrowings	36,344,769	42,768,545
Cash outflow from financing activity	**(36,493,083)**	**(45,969,979)**
Outflow of cash from borrowings	(36,306,956)	(45,969,979)
Other outflows from financing activity	(186,127)	-
Net outflow of cash from financing activity	**(148,314)**	**(3,201,434)**
Total cash inflow	**90,257,837**	**100,490,359**
Total cash outflow	**(83,140,532)**	**(93,625,846)**
Net increase in cash	**7,117,305**	**6,864,513**
Net decrease in cash	**-**	**-**
Cash and cash equivalents at the start of the year	**40,375,748**	**26,314,898**
Exchange rate gains	228,411	22,927
Exchange rate loss	(199,436)	-
End of period cash and cash equivalents	**47,522,028**	**33,202,338**

INCOME STATEMENT

3.1. Interest Income and Expenses

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

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

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

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

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

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

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

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

Net interest income in the period January – June 2019 amounts to RSD 6,307,132 thousand and is higher by RSD 77,252 thousand or 1.24% compared to the same period last year.

Realized net interest income is approximately equal to planned values from the Business plan for the first six months of 2019.

3.2. Fee and Commission Income and Expenses

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

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

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

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

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

Net fee and commission income in the period January – June 2019 amount to RSD 2,604,550 thousand and are higher compared to the same period 2018 by 2.02% or RSD 51,532 thousand.

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

Realized or unrealized gains and losses based on the change in the market value of trading securities are recognized through the income statement.

In the observed period in 2019 the Bank reported net gain on the basis of the change in the fair value of financial instruments held for trading in the amount of RSD 36,998 thousand (bonds and T-bills of the Republic of Serbia and investment units of Kombank money fund).

Unrealized gains and losses based on the change of value of debt and proprietary securities valued at fair value through other comprehensive income are recognized within the revaluation reserves included in the Bank's capital. At the time of derecognition of debt securities (sale or permanent decrease in the value), corresponding amounts of the previously formed revaluation reserves are shown in the Income Statement as gains or losses based on the derecognition, whereas in case of derecognition of proprietary securities, relevant amounts of previously formed revaluation reserves permanently remain within the capital.

On the basis of derecognition of financial instruments that are measured at fair value the net income is recorded from sale in the amount of RSD 201,317 thousand has been recorded (bonds of the Republic of Serbia).

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

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

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

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

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

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

Net income from exchange rate differentials in the reporting period January – June 2019 amounts to RSD 9,160 thousand. The stated net income is mainly under direct impact of movement of RSD exchange rate against currency basket (currencies EUR, USD and CHF) between the two observed reporting periods as a form of protection against risk and management of the Bank's FX position – balanced FX position.

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

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

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

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

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

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

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

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

In period January– June 2019 the Bank recorded the net income from reduction of impairment of financial assets and credit risk-bearing off-balance sheet items not measured at fair value through P&L in amount of RSD 1,637,952 thousand unlike the same period 2018 when on the same basis it recorded net expense in amount of RSD 35,188 thousand. Increase compared to the same reporting period largely relates to income from abolishment of indirect write-offs of share in equity of subsidiary banks that are measured at purchase value on the basis of re-valuation of share in subsidiary legal entities in amount of RSD 826,714 thousand (reference Item 3.16.) , as well as to collection of receivables, from February 2019, which the Bank achieved by realizing the contract between two clients, in accordance with the provisions of the legally effective pre-packaged reorganisation plan, based on purchase and sale of warehouse facility over which the Bank has the right of registration of mortgage. Total amount of payment of RSD 442,089 thousand is recognized in P&L on the basis of collection of written-off receivables.

3.6. Net loss on the basis of derecognition of financial instruments that are measured at amortised cost

In period January – June 2019 net losses are recorded on the basis of derecognition of financial instruments that are measured at amortised cost in amount of RSD 590,451 thousand. The amount is fully related to net effects of the implementation of the Law on the Conversion of Housing Loans Indexed to Swiss Francs from April 2019, by which the banks are obliged to recognize the expenses of conversion and reduction of the remaining debt in P&L of current period.

According to the Law, the amount received by conversion of the remaining debt from Swiss francs to debt indexed in euros at exchange rate for conversion for all clients who signed the contract with the Bank, is decreased by 38%, provided that 23% of reduction will be charged to P&L of the current period of the Bank and for 13% of reduction the receivable is formed from the Republic of Serbia. Net negative effect recorded in Bank's P&L refers to recalculation of 23% of reduction of net receivable on the basis of derecognition of loans in Swiss francs.

New reduced amount of credit receivables in euros with the new repayment schedule the Bank recorded within the position loans and receivables from customers.

3.7. Other operating income

In the overall other operating income amounting to RSD 68,494 thousand the most considerable share of 93.69% has income from operating activities (the same period last year 95.43%), which is largely relate to income realised from lease of property amounting to RSD 31,356 thousand. Other operating income are realized from reimbursement of expenses based on: court and utility costs, income from collected expenses of official mobile phones as per authorisation of the employees, income on the basis of using the company's vehicle for private purposes, as well as income from long-term insurance.

Income from dividends is part of the item: Other Operating Income. Dividends received from investment in shares of other legal entities in the amount of RSD 4,324 thousand are shown as income from dividends at the moment of their collection. Out of total amount of collected dividends, RSD 3,907 thousand relate to received dividend from VISA Inc. USA, while RSD 417 thousand relate to dividend received from MasterCard USA.

3.8. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 2,177,607 thousand are lower by RSD 24,909 thousand or 1.13% compared to the same period last year.

3.9. Depreciation Costs

Depreciation costs amounting to RSD 496,957 thousand are higher than in period January – June 2018 by RSD 212,865 thousand or 74.93%. Increase in depreciation costs mostly refer to depreciation of leasing assets due to start of implementation of standard IFRS 16 in amount of RSD 200,058 thousand (reference note 2.2.). Leasing asset initially recognized at purchase value is subsequently reduced for the amount of amortization whereby the amortization is calculated at straight line method over the period of the lease contract term.

3.10. Other Income

Out of the total other income in the amount of RSD 409,063 thousand the most significant share of 69.08% have the income from the release of unused provisions for court disputes in the amount of RSD 282,591 thousand (reference note 3.19.), as well as other income with share of 30.92% or RSD 126,472 thousand. Within other income equally significant items relate to income on the basis of collected interest from previous years from corporate clients, entrepreneurs and retail clients in total amount of RSD 116,318 thousand, which accounts for 28.44% of other income.

3.11. Other Expenses

Other expenses are stated in the amount of RSD 3,671,005 thousand and are higher compared to the same period last year by RSD 605,303 thousand or 19.74%. Other expenses comprise of:

a) Operating expenses amounting to RSD 2,503,649 thousand,
b) Cost of provisions for court proceedings liabilities amounting to RSD 987,737 thousand,
c) Other expenses amounting to RSD 178,747 thousand and
d) Losses from disposal and write-off of fixed assets and intangible assets in the amount of RSD 872 thousand.

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

a) Operating expenses in the total amount of RSD 2,503,649 thousand, as follows:

intangible costs totalling RSD 1,243,022 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 861,948 thousand, property insurance expenses in the amount of RSD 125,723 thousand, costs of commuting to and from work of RSD 46,666 thousand, costs of money transport in the amount of RSD 39,108 thousand, costs of lawyer services amounting to RSD 37,680 thousand, cost of production services amounting to RSD 664,470 thousand, cost of material in amount of RSD 151,092 thousand, tax costs amounting to RSD 75,787 thousand, contribution costs amounting to RSD 355,155 thousand and other expenses in amount of RSD 14,123 thousand.

Operating expenses of the current period are lower compared to the same period last year by RSD 220,578 thousand.

b) Costs of provisions for court liabilities in the amount of RSD 987,737 thousand relate to increase of provisions for Bank's court liabilities in 2019 (reference note 3.18.) and

c) Other expenses in the amount of RSD 178,747 thousand.

Out of total amount of other expenses for period January – June 2019 in amount *of* RSD*178,747* thousand the largest part relates to costs of the insurance policy for receivables of the loan users in the amount of RSD 104,981 thousand. Other expenses on this basis in the same period 2018 amounted to RSD 79,215 thousand.

Compared to the same period 2018, other expenses are higher by RSD 53,523 thousand, primarily as a result of increase of cost of insurance for receivables of the loan users (increase by RSD 25,765 thousand), cost of insurance of the user of product – account sets (increase by RSD 9,213 thousand) and cost of expenses as per lost court proceedings (increase by RSD 5,015 thousand).

3.12. Profit and Loss on the basis of deferred taxes

Profit based on deferred taxes in amount of RSD 293 thousand and the loss on the basis of deferred taxes in amount of RSD 147 thousand, the Bank recorded upon preparing and filing the final forms of tax balance for the year 2018.

BALANCE SHEET

Total balance sheet as of н 30.06.2019 amounts to RSD 412,275,059 thousand, which in comparison to 31.12.2018 represents an increase by RSD 11,109,079 thousand or 2.77%.

ASSETS

The dominant share in the total assets of the Bank is that of the loans and deposits to customers and banks of 47.35% (2018: 46.37%), securities with share of 32.03% (2018: 33.20%), cash and funds with central bank with share of 15.54% (2018: 15.85%), other assets with share of 1.61% (2018: 1.65%), real estate, plant and equipment with share of 1.60% (2018: 1.40%) and investment in subsidiaries 0.83% (2018: 0.65%).

3.13. Cash and Funds with the Central Bank

Cash and balances with the central bank as at 30.06.2019 amount to RSD 64,074,823 thousand, and account for 15.54% of Bank's total assets (15.85% as at 31.12.2018). Compared to 31.12.2018 the position is higher by RSD 479,113 thousand.

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

3.14. Securities

Investments in securities in the amount of RSD 132,061,405 thousand represent a percentage of share of 32.03% in relation to total assets (2018: 33.20%) and comprise of securities that are measured at fair value through profit and loss in the amount of RSD 6,944,321 thousand and securities measured at fair value through other comprehensive income in the amount of RSD 125,117,084 thousand.

Decline of investing in securities is realised compared to 2018 by RSD 1,116,193 thousand, or 0.84%. Realised drop of RSD 1,116,193 thousand is a result of increase of securities that are measured at fair value through P&L by RSD 2,134,511 thousand on one hand and decrease of securities that are measured at fair value through other comprehensive income by RSD 3,250,704 thousand, on the other hand, largely due to early repurchase of bonds of Republic of Serbia in USD by the Republic of Serbia (around USD 38,000 thousand).

The largest share in the securities structure in RSD is that of the RS bonds (99.16%), followed by investment units of KomBank Money Fund, Beograd (0.84%). Regarding securities in foreign currency, these are made up of RS bonds (96.53%) and bonds of foreign banks and states (3.47%).

3.15. Loans and Receivables from Banks and Other Financial Organisations and Loans and Receivables from Customers

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

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

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

As at 30.06.2019 the loans and receivables from banks and other financial organisations amount to RSD 22,713,795 thousand with percentage of share of 5.51% of total assets (2018: RSD 18,477,729 thousand) and are higher by RSD 4,236,066 thousand. Increase compared to 31.12.2018 is mainly a result of increase of balance on custody accounts of the Bank with foreign banks.

Loans and receivables from customers as at 30.06.2019 amount to RSD 172,494,006 thousand and with percentage of share of 41.84% of total assets (2018: RSD 167,545,674 thousand) have dominant share in structure of assets. Total loans to customers are higher by 2.95% compared to 2018, or RSD 4,948,332 thousand, as a result of net increase of newly approved loans on one hand and reduction of loans due to early and regular repayments on the other hand.

In period January – June 2019 in accordance with the NBS Decision on accounting write-off of balance-sheet assets of banks, the Bank performed a permanent write-off by transferring balance-sheet assets to the off-balance-sheet records in the amount of RSD 173,396 thousand. The permanent write-off did not result in a decrease in balance-sheet assets, given that the write-off was done for the receivables that had been 100% impaired i.e. in full gross amount of carrying value. According to the NBS decision, balance-sheet assets include NPLs that fit the description in the Decision on the classification of balance-sheet assets and off-balance-sheet items.

3.16. Investment in Subsidiaries

Investments in subsidiaries are RSD 3,438,573 thousand and account for 0.83% of total assets.
The ownership structure is shown in item 1 of the Notes. A certain number of banking transactions are carried out with subsidiaries, as a part of regular operations. These include primarily loans and deposits.

Investments in subsidiaries as of 30.06.2019 amount to RSD **5.480.888 thousand** (gross amount excluding impairment provision) individually per members:

	In **thousand RSD**
KomBank Invest a.d. Beograd	140,000
Komercijalna Banka a.d. Banja Luka	2,974,615
Komercijalna Banka a.d., Podgorica	2,366,273
TOTAL GROSS	**5,480,888**
Impairment provision	(2,042,315)
NET	**3,438,573**

Based on observed clear indications with positive consequences on operation of subsidiary banks, and with the aim of establishing the fair value of share in equity of subsidiary banks, the Bank hired an independent valuer. Based on results of valuation the abolishment is carried out of part of previously recognized impairment of share in subsidiary banks in total amount of RSD 826,714 thousand.

As at 30.06.2019 the net value of the share in subsidiary legal entities amounts to RSD 3,438,573 thousand.

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

All the above items account for 4.25% of total assets, of which the highest percentage relates to other assets in amount of 1.61%, property, plant and equipment in amount of 1.60% and investment property amounting to 0.46%.

Equity investments in banks, foreign and local legal entities as of 30.06.2019 amount to RSD 1,759,127 thousand measured at fair value through other comprehensive income. The largest amount refers to the share in the equity of foreign entities of RSD 1,702,018 thousand and these are shares in the companies MASTER Card International and VISA INC.

Compared to 31.12.2018 when deferred tax assets are netted (net amount 840,967) with deferred tax liabilities during the business year, deferred tax assets and deferred tax liabilities are presented in separate balance sheet positions, i.e. are stated by gross principle. As of 30.06.2019 deferred tax assets amount to RSD 1,433,502 thousand, and deferred tax liabilities RSD 752,901 thousand and are stated as liabilities in the balance sheet.

Deferred tax assets as of 30.06.2019 largely comprise deferred tax assets based on transferred tax losses in the amount of RSD 878,000 thousand. These deferred tax assets were booked in 2017 in the amount of RSD 1,235,813 thousand, based on the calculation of planned profit from the business plan for the period 2017 - 2019, and partly (in the amount of RSD 368,667 thousand) they are used for covering corporate income tax for 2017. In 2018 on this basis RSD 641,046 thousand of tax assets were formed and RSD 630,192 thousand were used for covering the corporate income tax for 2018 (net increase of RSD 10,854 thousand). The prescribed deadline for the use of transferred tax losses is 5 years.

An important item in deferred tax assets in the amount of RSD 295,225 thousand are tax assets for temporary non-recognised expenses from property impairment.

In the second quarter of 2019 there occurred a change in deferred taxes compared to 31.12.2018 on the basis of change in value of securities and the change on transferred tax losses, which is recorded within an increase of the position - deferred tax assets by RSD 716 thousand and an increase of the position – deferred tax liabilities in amount of RSD 161,082 thousand.

LIABILITIES

In period January – June 2019 in the structure of liabilities deposits and other financial liabilities to banks and customers still have a dominant share with total percentage of 79.09% (2018: 80.49%) in total liabilities. The share of capital in total liabilities stands at 16.74% (2018: 16.84%).

Other positions make for 4.16% of total liabilities which mainly refers to the other liabilities with the percentage of 3.41%.

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

Deposits are shown at the level of deposited amounts, which can be increased by calculated interest, which depends on the contractual relationship between the depositor and the Bank. The Bank agreed the interest rates on deposits depending on the currency, maturity and type of deposits.
FX deposits are shown in Dinars at middle exchange rate of currencies applicable as at the balance sheet date.
In the balance sheet, deposits are shown as transaction and other deposits of the financial sector and deposits from other customers.

The most important share in the structure of liabilities is that of the deposits and other financial liabilities to customers in the amount of RSD 321,757,210 thousand, which make for 78.04% of total liabilities (2018: 79.08%) and deposits and other financial liabilities towards banks, other financial organizations and the central bank in the amount of RSD 4,340,011 thousand with share of 1.05% (2018: 1.41%).

Total deposits to customers, banks, other financial organizations and central bank amounted to RSD 326,097,221 thousand and compared to 2018 they are higher by RSD 3,205,389 thousand: transaction deposits are one hand lower by RSD 747,041 thousand, while other deposits recorded a growth amounting to RSD 3,952,430 thousand, on the other hand. The most significant individual growth on the position savings deposits in foreign currency.

Reduction in transaction deposits was the result of reduction in dinar transaction deposits amounting to RSD 2,919,016 thousand, while the transaction deposits in foreign currency recorded a growth by RSD 2,171,975 thousand compared to 31.12.2018. In structure of transaction deposits still prevailing are the deposits in local currency with a share of 61.76%, while the remaining 38.24% relate to deposits in foreign currency.

In case of other deposits, deposits in foreign currency are dominant with a share of 92.36% while dinar deposits have a share of 7.64%. Foreign currency savings increased by approximately EUR 9,92 million.

Borrowings

Borrowings, as part of the deposit and other liabilities towards banks and other customers' position, amounted to RSD 1,740,252 thousand with a percentage of share in the total liabilities of 0.42% and they refer to received credit lines in foreign currency. The total position is lower in relation to 2018 by RSD 1,080,738 thousand mostly as a result of regular and early repayments of foreign credit lines in foreign currency, as follows:

- Early repayment of credit line EAR in the amount of EUR 52 thousand and regular repayment in amount of EUR 155 thousand

i.e. regular repayment of credit lines:

- EBRD in amount of EUR 6,000 thousand
- EIB in amount of EUR 2,570 thousand and
- Government of the Republic of Italy in the amount of EUR 331 thousand

As of 30.06.2019 the most considerable share in the structure of received loans relate to obligation towards the:

- European Investment Bank (EIB) with percentage of share of 94.71%

Other credit lines have a share of 5.29% and they are composed of:

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

3.19. Provisions

Provisions in the amount of RSD 2,344,530 thousand consist of provisions for:

- Covering of potential liabilities (litigations) in the amount of RSD 1,596,845 thousand,
- Long-term employee earnings in the amount of RSD 478,556 thousand and
- Provisions for losses on off-balance sheet assets in the amount of RSD 269,129 thousand.

In the observed period, compared to 2018 there was an increase in provisions amounting to RSD 690,867 thousand, as a result of net increase of provisions on the basis of court disputes by RSD 696,692 thousand, on one hand and reduction of provisions for losses on off-balance sheet assets in amount of RSD 5,825 thousand, on the other hand.

Provisions for court disputes

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

For two thousand seven hundred forty two cases as at 30.06.2019 the total provisions amount to RSD 1,596,845 thousand.

Compared to 31.12.2018 there was a change in the total level of provisions in the net amount of RSD 696,692 thousand. Out of this amount, the change relating to the net costs of provisioning, or increase of provisions arising from court obligations amounts to RSD 705,146 thousand recognised within the positions of the profit and loss account (reference notes 3.10 and 3.11) while the decrease in the provisions in the amount of RSD 8,454 thousand refers to the use of the provisions for making payments and release of provisions as per final judgements.. The increase in the provisions is the result of an additional calculation of interest and exchange rate differences for existing court disputes and the formation of new provisions for 664 new cases.

3.20. Other liabilities

Other liabilities amount to RSD 14,059,042 thousand and compared to 2018 they are higher by RSD 4,999,070 thousand.
The percentage of share of other liabilities in total liabilities is 3.41% (2018: 2.26%). The most important positions of other liabilities are: liabilities from the profit in the amount of RSD 9,229,643 thousand, liabilities based on leasing in amount of RSD 1,132,927 thousand, liabilities in calculation in foreign currency in the amount of RSD 856,450 thousand, liabilities in calculation as per activities of purchase and sale of foreign currency in FX market in amount of RSD 589,500 thousand, liabilities for payments by payment cards abroad (VISA inc USA, MasterCard USA) in amount of RSD 312,877 thousand and liabilities for net salaries charged to expenses in the amount of RSD 232,291 thousand.

Increase in other liabilities in amount of RSD 4,999,070 thousand mainly refer to increase of liabilities from profit in amount of RSD 3,787,510 thousand and increase in liabilities based on recognition of lease liabilities amounting to RSD 1,132,927 thousand in accordance with the requirements of IFRS 16 (reference note 2.2.)

Increase in liabilities from profit was carried out on the basis of the decision of the General Meeting of Bank's Shareholders 4586/3 of 24.04.2019 on distribution of profit from 2018 and retained earnings from previous years and to the largest extent it refers to liabilities arising from dividends on ordinary shares and preference shares in amount of RSD 3,258,073 thousand. Disbursement of dividends will be carried out upon acquiring the conditions prescribed by the Law on Banks and in compliance with dividend policy.

3.21. Capital

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

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

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

As of 30.06.2019 the Bank's capital comprises of:

In thousand RSD	2019.	2018.
Share capital	17,191,466	17,191,466
Issue premium	22,843,084	22,843,084
Capital	40,034,550	40,034,550
Reserves from profit	18,565,207	14,223,535
Revaluation reserves	2,396,591	2,006,662
Profit/loss from changes in the value of debt and equity instruments	2,645,137	2,125,496
Actuarial gains	122,579	122,579
Reserves	23,729,514	18,478,272
Accumulated profit	918,509	902,509
Profit	4,338,792	8,145,182
Balance as at date	**69,021,365**	**67,560,513**

Based on Decision of the General Meeting of Bank's Shareholders 4586/3 of 24 April 2019 the distribution of profit from the year 2018 and previous years has been executed to payment of dividends to the holders of ordinary and preference shares in amount of RSD 3,258,073 thousand (reference note 3.20.) and to the increase of reserves from profit in amount of RSD 4,341,672 thousand, as is the increase of the position compared to 31.12.2018.

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

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

The capital adequacy ratio of the Bank as of 30 June 2019, calculated on the basis of the financial statements, equals 30.09% having implemented the applicable decisions of the National Bank of Serbia for 2019.

Moreover, the Bank is bound to maintain the pecuniary portion of the capital at the level of EUR 10,000 thousand. As at 30.06.2019 the pecuniary part of capital is above the prescribed level.

The structure of the share capital – ordinary shares as at 30.06.2019 is as follows:

Shareholder’s name	% of stake
The Republic of Serbia	48.65
EBRD, LONDON	24.43
IFC CAPITALIZATION FUND LP	10.15
Jugobanka AD Beograd in bankruptcy y	1.91
BDD M&V INVESTMENTS AD BEOGRAD	1.89
Company Dunav insurance	1.73
EAST CAPITAL (lux) BALKAN FUND	1.26
GLOBAL MACRO CAPITAL OPPORTUNITIES	0.78
STANKOM Co DOO BEOGRAD	0.70
GLOBAL MACRO ABSOLUTE RETURN A	0.54
SOCIETE GENER. BANKA SERBIA - Custody account	0.44
FRONT. MARK. OPPORTUN. MASTER	0.41
EAST CAPITAL (lux) EASTERN E	0.38
DEKA ENGINEERING	0.36
Others	6.37
	100.00

The Ministry of Finance of the Republic of Serbia on 26 June 2019 purchased the ordinary shares held by the shareholders DEG-DEUTSHE INVESTITIONS and SWEDFUND INTERNATIONAL in total percentage of 6.90 % which increased the percentage of share of the Republic of Serbia to 48,65 % of stake. This started the process of repurchase of ordinary shares of foreign shareholders, in compliance with the tender invitation for privatization of the Bank.

4. RELATIONS WITH SUBSIDIARIES

4. A. Balance as of 30.06.2019

RECEIVABLES

In thousand RSD

Subsidiaries	Advances and loans	Interest and fees	Other assets	Impairment provision	Net	Off-Balance	Total
1. Kom.banka AD Podgorica	6,662	882	-	93	7,451	524,709	532,160
2. Kom. Banka AD Banja Luka	85,209	25	725	1,056	84,903	2,004,506	2,089,409
3. Kombank INVEST	-	179	-	-	179	200	379
TOTAL:	**91,871**	**1,086**	**725**	**1,149**	**92,533**	**2,529,415**	**2,621,948**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interest and fees	Other liabilities	Total
1. Kom.banka AD Podgorica	418,371	-	1,670	420,041
2. Kom. Banka AD Banja Luka	160,577	-	-	160,577
3. Kombank INVEST	46	-	-	46
TOTAL:	**578,994**	**-**	**1,670**	**580,664**

INCOME AND EXPENSES for period 01.01. – 30.06.2019

In thousand RSD

Subsidiaries	Interest income	Fee and commission income and other income	Interest expenses	Fee and commissi on expenses	Net income / expenses
1. Kom.banka AD Podgorica	31	2,570	(384)	(99)	2,118
2. Kom. Banka AD Banja Luka	1,150	2,610	-	(197)	3,563
3. Kombank INVEST	-	884	-	-	884
TOTAL:	**1,181**	**6,064**	**(384)**	**(296)**	**6,565**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange gains in amount of RSD 188 thousand.

4. B. Balance as of 31.12.2018

Balance as at 31.12.2018

RECEIVABLES

In thousand RSD

Subsidiaries	Advances and loans	Interest and fees	Other assets	Impairment provision	Net o	Off-balance	Total
1. Kom.banka AD Podgorica	6,651	882	-	93	7,440	-	7,440
2. Kom. Banka AD Banja Luka	101,737	25	881	1,261	101,382	1,181,946	1,283,328
3. Kombank INVEST	-	162	-	-	162	200	362
TOTAL:	**108,388**	**1,069**	**881**	**1,354**	**108,984**	**1,182,146**	**1,291,130**

LIABILITIES

In thousand RSD

Subsidiaries	Deposits and loans	Interest and fee	Other liabilities	Total
1. Kom.banka AD Podgorica	1,440,473	-	1,651	1,442,124
2. Kom. Banka AD Banja Luka	179,992	-	-	179,992
3. Kombank INVEST	8	-	-	8
TOTAL:	**1,620,473**	**-**	**1,651**	**1,622,124**

INCOME AND EXPENSES for period 01.01. – 30.06.2018

In thousand RSD

Subsidiaries	Interest income	Fee and commission income	Interest expenses	Fee and commissi on expenses	Net income / expenses
1. Kom.banka AD Podgorica	36	1,175	-	-	1,211
2. Kom. Banka AD Banja Luka	2,026	2,827	-	(544)	4,309
3. Kombank INVEST	-	574	-	-	574
TOTAL:	**2,062**	**4,576**	**-**	**(544)**	**6,094**

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange losses in amount of RSD 5,151 thousand.

5. RISK MANAGEMENT

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

The Bank has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, appropriate organizational structure, effective and efficient process of managing all risk it is exposed to, adequate system of internal controls adequate information system and process of internal capital adequacy assessment.

Risk management process involves clear determining and documenting risk profile and adjusting risk profile to the Bank's aptitude to assume risk in accordance with the adopted strategies and policies.

The basic objectives that the Bank set for the risk management system within its risk management and capital management strategies are the following: minimizing the negative effects of the financial result and the capital by respecting the defined framework of acceptable risk level, diversification of the risk that the Bank is exposed to, maintaining the required levels of capital adequacy, maintaining the NPL's participation in the total loan to the receiving level for the Bank, maintaining liquidity coverage ratio above the level prescribed by the regulations and internal limits, development of the Bank's activities in accordance with business strategies, opportunities and market development this to gain competitive advantage. The objectives of risk management are in line with the Bank's planning provisions.

Taking into account the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, during the year 2019 the Bank conducted appropriate changes of internal acts which regulate risk management.

Risk Management System

The risk management system is governed by the following internal enactments:

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

Risk Appetite Framework represents the formalization of the Bank's preference for taking risks through defining targets, tolerance (triggers) and limits on the basis of quantitative and qualitative analyses. The Risk Appetite Framework is integrated into the decision-making process in the Bank, as well as in the strategic planning process, i.e. in the preparation of the Strategy and Business Plan.

Risk Management Strategy sets out:

- Long-term objectives, defined by the Bank's business policy and strategy and its attitude to assume risk determined in accordance with those objectives;
- Basic principles of risk undertaking and management;
- Basic principles of the process of internal assessment of the Bank's capital adequacy;
- Overview and definitions of all types of risk the Bank is exposed to or may be exposed to.

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

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 regular business activities of the Bank;
- 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 borrower's financial condition;
- A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
- Segregation of bad assets;
- Principle of materiality in defining possible measures;
- Increased frequency of monitoring the value of collateral and the funds obtained from collection;
- Organizational separation of the Sector for Prevention and Management of Risk Placements;
- Inclusion in corporate governance and risk management of indicators for bad asset tracking;
- Transparent reporting.

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.

The Bank closely defines risk management process and the responsibilities and responsibilities of all organizational parts of the Banke in the risk magaement system by Risk management procedures.

The Bank has closely prescribed the methods and approaches used in the risk management system by individual methodologies.

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 competent and responsible for the implementation of risk management strategy and policies and capital management strategies, for adopting risk management procedures, i.e. identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Board of Directors in relation to those activities. Also, the Executive Board 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 Department*) is responsible and responsible for analyzing and monitoring the applied and adequate implementation of the adopted risk management strategies and policies and the internal control system. The Audit Committe report the Board of Directors at least one monthly on its activities and identified irregularities, and proposes the way in which it will be eliminated, propose improvements in risk management policies and procedures and implement 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 claims, 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, as well requirements regarding non-performing exposures, 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 and balance sheet 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 controle function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

Risk Management Process

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

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

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

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

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank’s organizational structure to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, i.e. 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 conclusions about the risks that the Bank is exposed to.

Types of Risk

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

5.1. Credit Risk

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

The Bank has defined criteria for loan approval and rescheduling and restructuring of receivables prescribed by its loan approval procedures and methodology.

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

Decisions on credit risk exposure are defined through the decision making system that depends on the type of customer and exposure level. Crediti decision makers are: decision making competent authorities in the Risk Management Function, Credit Committee, Executive Board and Board of Directors.

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

For loans contracted in foreign currencies or RSD loans indexed to a currency clause, the Bank estimates the effects of the changes in foreign exchange rates on the financial situation and creditworthiness of debtors and particularly analyzes adequacy of the debtor's cash flows in relation to the changed level of liabilities per loans assuming that there will be certain fluctuation in RSD exchange rates on an annual basis.

The organizational model of the credit risk management system of the Bank 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, on the other hand, i.e. division of duties, competencies and responsibilities. The Bank has also established an adequate information system that implies full information of the persons involved in the credit risk management system and proper reporting of the Bank's management.

Credit Risk Management

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

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

The basic principles of credit risk management are as follows:

- Managing credit risk at the individual loan level as well as the Bank's entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the Bank's financial result and capital;
- Loan rating according to risk;
- Operating in accordance with best banking practices of loan approval;
- Ensuring adequate credit risk management controls.

In its effort to manage credit risk the Bank seeks to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Bank assesses creditworthiness of each customer upon the submission of a loan application and regularly monitors its debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables.

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

The rating system is not merely an instrument for encasement individual decisions and assessing risk levels of individual investments. Besides the above mentioned, rating system is used for assessing the risk level of whole portfolio, and is also used in process of loan impairment for the purpose loan ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

In addition to the internal rating system, in credit risk analysis the Bank also uses principles prescribed by the National Bank of Serbia, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses. In December 2018, in accordance with the amendments to the regulations of the National Bank of Serbia, adopted the amending regulations that from January 1, 2019 confirms cancellation of calculation of reserves for estimated losses and the required reserves.

Alleviating credit risk entails maintaining the risk at the level acceptable to the Bank's risk profile, i.e. maintaining acceptable quality level of the Bank's loan portfolio.

Basic credit risk alleviating techniques are:

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

The Bank's exposure limits per individual debtor are based on the assessment of the debtor's creditworthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Bank continuously controls credit risk movements within a defined risk profile.

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

The Bank monitors exposure according to defined limits with the same or similar risk factors, and depending on general economic trends, developments in certain sectors and geographic areas, values stated in the Bank's business plan, and carries out regular review of the defined limits and proposes redefining them in case of changes in risk factors.

By the Decision on Managing Concentration Risk Arising from Bank Exposure to Specific Products, the National Bank of Serbia, from January 1, 2019 banks were obliged to monitor the risk of concentration or exposure of the bank to groups of products, primarily exposure to cash, consumer and other loans granted to households of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

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

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

As a hedge against counterparty default risk, the Bank undertakes the following steps in respect to collection of due receivables: rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; sale and/or assignment of receivables; executing agreements with interested third parties; and instigating court proceedings and other measures.

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

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

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

IFRS 9 financial instruments

Starting from January 1, 2018 the Bank applies IFRS 9 standard that has replaced IAS 39 standard. In accordance with IFRS 9 standard financial assets can be classified and evaluated as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI[1] criteria;
- 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).

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

Equity instruments, 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 immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

Identification of problematic and restructured claims

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

[1] Solely Payments of Principal and Interest – SPPI

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 rank 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. Clients located in stages 1 and 2 are impaired on a group basis, while Stage 3 clients, with the fulfillment of the criteria of material significance, are impaired individually. NPL clients at stage 3, with less material exposure, are impaired on a group basis, while respecting the requirements of IFRS 9 standards in at least two collection scenarios.

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

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

Problematic claims include all claims that are late in settling liabilities over 90 days, under any material obligation to the Bank (parent company) or subordinated companies, receivables where, on the basis of the financial situation, it is estimated that the borrower will not be able to settle its obligations in completely without taking into account the possibility of implementing credit protection instruments (regardless of whether they are late in settling liabilities), claims for which the amount of the impairment is determined on an individual basis. Problems are also considered as claims based on: termination of recording of interest income, commissions and fees in the income statement specific adjustments for credit risk, which are calculated due to significant deterioration in credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, the restructuring of receivables due to the financial difficulties of the debtor, and the submission of a motion to initiate bankruptcy proceedings against the debtor. Problematic claims include all receivables from the debtor, if one claim is classified as a group of problematic claims.

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

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

In accordance with implementing IFRS 9 standard, any restructuring of claims due to financial difficulties is considered to be modified or changed financial asset.

Modifications that cause the derecognition of the old financial assets and initial recognition of the new, and that they were motivated by a drop in the credit standing and repayment capacity, lead to initial recognition financial assets that standard defined as "POCI[2]", i.e. funds that are impairment at the time of initial recognition, and are initially valued at fair value. They do not have at the time of initial recognition impairment, but you must include the expected credit losses during lifetime assets in the calculation of effective interest rates.

Consequently, the Bank includes an initial expected credit losses in estimating cash flows, when Bank calculate a credit-adjusted effective interest rates of financial assets that are considered to be impairment at the time of initial recognition. Also, for purposes of calculation of impairment, this means going for the whole period of duration stay in level 3.

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

Termination of recognition leads to a sustained gain or loss recognized in the income statement and an equal difference between the amortized value of an old financial asset and the fair value of a new financial asset minus the amount of expected loan losses recognized as impairment on a new financial asset.

The Bank regularly monitors the measures taken to restructure the risky placements and controls the timing of taking these measures. Monitoring of the measures taken, or the realization of the same, such as settlement of due liabilities, is carried out on a daily basis. Monitoring of restructured business clients is performed regularly every 6 months or more often if necessary. Analysis of financial statements, analysis of indebtedness, verification of adequacy of collaterals and monitoring overall operations, strategy towards individual debtors are the key points of above mentioned monitoring.

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

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

Downgrade Risk

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

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

[2] Purchased or Originated Credit-Impaired (POCI)

A low level of risk implies doing business with customers with a high credit rating and is acceptable for the Bank (risk rating categories 1 and 2), increased level of risk implies doing business with customers with operating difficulties that could have a negative impact on the settlement of liabilities (risk rating categories 3 and 4), and a high level of risk characterizes customers with negative operating results and poor credit rating history (risk rating categories 4D, 4DD and 5). Risk category 4 is divided into five 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 downgrade risk through continuous monitoring of customers' business operations and by identifying changes that could arise through: deterioration of a borrower's financial standing, delays in repayment and changes in the business environment, as well as by securing appropriate collaterals.

Risk of Change in Value of Assets – assets delinquency

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

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

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

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

The Bank assesses allowance for impairment of receivables on an individual and on a group basis.

Individual and Group Assessment at Stage 3

The Bank assesses impairment of each individually significant loan with default status (risky placement, risk subcategory 4D, 4DD and 5 according to internal rating system) i.e. loans that are classified into level 3 in accordance with IFRS 9 standard. On that occasion the Bank considers the financial position of the loan beneficiary, sustainability of its business plan, its ability to improve performance in the event of financial difficulties, income projections, availability of other financial support and collateral value which can be realized, as well as scheduling of expected cash flows. 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, ad hoc assessment of loan impairment is performed.

The threshold of materiality, the Bank determines based on the analysis of value structure of its portfolio by customer and product.

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

- 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, due to the financial difficulties of the debtor, the Bank significantly changes the conditions for 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 account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation or some other type of financial reorganization of the borrower) etc.

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

In addition, the documents required as proof of the impairment of the loan are presented by the evidence for the assessment of the expected inflow from placement, which are primarily related to the documentation on 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 asset and the present value of the estimated future cash flows whereby the Bank recognizes the existence of several possible collection scenarios when assessing the expected future cash flows, in accordance with IFRS 9, which is applicable as of January 1, 2018. On that occasion, scenarios that can be considered are the following scenario from business operations (restructuring/agreement and the like), scenario from the collateral realization (extrajudicial/judicial/bankruptcy and other) and sale of receivables. The probability of a certain scenario the Bank estimates based on the history of the realization and collection of problematic cases, the specifics of an individual client, as well as the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

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

Group Assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and are stage 1 - standard clients and stage 2 - clients with identified credit risk increase, as well as receivables based on commissions and other receivables that are not reduced to the present value.
Group assessment is carried out by groups with similar characteristics in terms of credit risk which are formed on the basis of internally prescribed methodologies (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, on a monthly basis. The loan loss impairment methodology has been significantly changed and instead IAS 39's incurred loss approach, forward-looking expected loss (ECL) approach is applied, in accordance with IFRS 9, 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.

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 entire life of the instrument.

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

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

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, overtime of over 30 days, and the like).

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

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

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

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

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

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

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

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

To calculate impairment for Stage 1, 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.

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, ie the probability of default for the entire life of the financial instrument.

PD parameters are updated semi-annually (for the dates of 30 June and 31 December) and are applied in the next half of the year, except for 31 December when PD parameter is applied for 31 December.
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 towards securities issued by the Goverment and 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.

Assessment of Provisions for Losses on Off-Balance Sheet Items

Assessment of provisions for losses on off-balance sheet items (contingent liabilities – payment and performance guarantees, letters of credit, and other off-balance sheet items) is performed when it is estimated that it is fairly certain that an outflow of assets will be required to settle contingent liabilities and the borrower is classified in 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 Credit 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 National Bbank of Serbia – Decision on the Classification of Bank Balance Sheet assets and Off-Balance Sheet Items and Decision on Capital Adequacy of Banks. 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 (collaterals)

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

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

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

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

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

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

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

Regular monitoring of real estate involves checking the value of real estate on the basis of available data and information, the comparison of the value of the real estate from Bank's portfolio with movements in the market value in the Republic of Serbia market (realized sales, supply and demand) by the regions listed in the catalog of collateral, the use of statistical models, etc. For all the business real estates, the Bank conducts verification of value at least once a year, and for housing and other real estate at least once every three years.

The value of the collateral and the tendency of movement of its value, the Bank monitors and updates to reduce the potential risk of unrealistic valuation to a minimum, and, if necessary, it may request additional collateral in accordance with the agreement. Collateral represent a secondary source of collection of receivables.

5.1.1. Maximum Credit Risk Exposure

The total exposure to credit risk on June 30, 2019 and December 31, 2018 is presented in the next review, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

(000) RSD

	30.06.2019.		31.12.2018	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**438,061,787**	**412,275,059**	**427,668,873**	**401,165,980**
Cash and cash funds held with the central bank	64,074,823	64,074,823	63,595,710	63,595,710
Loans and receivables due from banks and other financial institutions	22,939,457	22,713,795	18,705,766	18,477,729
Loans and receivables due from customers	186,269,879	172,494,006	181,694,980	167,545,674
Financial assets	132,062,923	132,061,405	133,183,262	133,181,667
Other assets	8,688,629	6,650,427	8,657,056	6,612,268
Non-montary assets	24,026,076	14,280,603	21,832,099	11,752,932
II. Off-Balance Sheet Items	**48,118,395**	**47,849,268**	**42,261,680**	**41,986,725**
Payment guarantees	3,846,869	3,798,659	3,107,502	3,037,138
Performance bonds	3,284,432	3,230,375	3,004,569	2,962,498
Irrevocable commitments	40,575,250	40,437,652	35,783,262	35,646,780
Other items	411,845	382,581	366,347	340,309
Total (I+II)	**486,180,182**	**460,124,327**	**469,930,553**	**443,152,705**

The largest credit risk is associated with the executed loan arrangements; however, the Bank is exposed to credit risk based on off-balance sheet items resulting from commitments and contingent liabilities.

Loans and receivables due from customers, banks and other financial institutions

30.06.2019.	Stage 1	Stage 2	Stage 3	Total	Impairment of Stage 1	Impairment of Stage 2	Impairment of Stage 3	Total impairment	Net
Housing Loans	37,688,688	484,567	1,220,653	39,393,908	24,193	8,602	544,558	577,354	38,816,554
Cash Loans	32,256,624	386,283	276,324	32,919,231	105,136	19,780	188,356	313,271	32,605,961
Agricultural Loans	9,018,171	104,873	293,087	9,416,131	66,622	5,407	161,580	233,609	9,182,522
Oher Loans	5,036,305	60,826	207,924	5,305,055	30,209	1,498	198,152	229,859	5,075,196
Micro business	8,835,320	104,272	662,289	9,601,881	120,838	2,819	372,268	495,924	9,105,957
Total Retail	**92,835,107**	**1,140,822**	**2,660,278**	**96,636,206**	**346,998**	**38,105**	**1,464,914**	**1,850,017**	**94,786,189**
Large corporate clients	30,949,953	1,520,379	11,658,949	44,129,280	317,533	37,544	7,850,988	8,206,065	35,923,216
Middle corporate clients	7,566,713	178,718	1,901,006	9,646,437	83,397	1,066	1,217,143	1,301,606	8,344,831
Small corporate clients	3,624,236	55,672	1,164,566	4,844,475	40,773	527	599,136	640,436	4,204,039
State owned clients	17,988,200	310,000	327,228	18,625,428	95,549	972	135,248	231,769	18,393,659
Other	11,068,592	-	1,319,461	12,388,053	226,520	-	1,319,461	1,545,980	10,842,073
Total Corporate	**71,197,695**	**2,064,768**	**16,371,209**	**89,633,673**	**763,771**	**40,108**	**11,121,976**	**11,925,856**	**77,707,817**
Total	**164,032,802**	**3,205,590**	**19,031,487**	**186,269,879**	**1,110,770**	**78,213**	**12,586,890**	**13,775,873**	**172,494,006**
Due from Banks	**22,727,390**	**-**	**212,067**	**22,939,457**	**13,595**	**-**	**212,067**	**225,662**	**22,713,795**

31.12.2018	Stage 1	Stage 2	Stage 3	Total	Impairment of Stage 1	Impairment of Stage 2	Impairment of Stage 3	Total impairment	Net
Housing Loans	37,397,786	654,204	1,521,937	39,573,927	32,149	18,803	722,406	773,358	38,800,570
Cash Loans	30,038,802	289,400	226,782	30,554,984	98,846	13,125	153,963	265,933	30,289,051
Agricultural Loans	8,357,877	91,169	263,341	8,712,387	60,893	3,809	138,525	203,227	8,509,160
Oher Loans	5,193,080	56,258	179,373	5,428,711	31,736	1,384	167,551	200,671	5,228,039
Micro business	8,694,031	115,982	656,885	9,466,898	120,679	4,018	317,218	441,915	9,024,982
Total Retail	**89,681,576**	**1,207,013**	**2,848,318**	**93,736,907**	**344,303**	**41,139**	**1,499,663**	**1,885,105**	**91,851,802**
Large corporate clients	33,953,918	1,658,522	11,595,741	47,208,181	310,263	197,878	7,901,653	8,409,794	38,798,387
Middle corporate clients	6,995,710	211,590	1,935,944	9,143,244	67,366	3,164	1,287,520	1,358,050	7,785,194
Small corporate clients	3,458,723	121,341	1,207,560	4,787,624	36,736	631	632,196	669,563	4,118,060
State owned clients	12,989,199	132,086	503,850	13,625,135	86,779	4,870	139,220	230,869	13,394,267
Other	11,788,352	-	1,405,537	13,193,890	190,800	-	1,405,126	1,595,926	11,597,963
Total Corporate	**69,185,902**	**2,123,539**	**16,648,632**	**87,958,073**	**691,944**	**206,543**	**11,365,715**	**12,264,202**	**75,693,871**
Total	**158,867,478**	**3,330,552**	**19,496,950**	**181,694,980**	**1,036,247**	**247,682**	**12,865,378**	**14,149,307**	**167,545,673**
Due from Banks	**18,494,474**	**-**	**211,292**	**18,705,766**	**16,745**	**-**	**211,292**	**228,037**	**18,477,729**

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 categoriy 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset and if there is a measurable decrease in future cash flows. Also, problematic loans include less materially significant stage 3 loans, and their impairment calculation is done on a group basis in accordance with the requirements of IFRS 9.

Non-problematic loans and receivables – stages 1 and 2

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

The impairment assessment on a group basis is based on the expected credit loss in accordance with probability unfulfilled commitments over the next 12 months (claims in level 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 level 2). By appreciating specificity in dealings with clients, in particular establishes the migration for economic.

5.1.2 Non-Performing Receivables, Stage 3

(000) RSD

30.06.2019	Gross Exposure	Gross Value Adjustment	Stage 3	Stage 3 -Restructured Loans	Impairment of Stage 3	Participation of Impaired Loans in Total Loans (%)	Collateral for Impaired Loans
Retail	**96,636,206**	**1,850,017**	**2,660,278**	**712,224**	**1,464,914**	**2,75%**	**2,286,708**
Housing Loans	39,393,908	577,354	1,220,653	297,319	544,558	3,10%	1,211,250
Cash Loans	32,919,231	313,271	276,324	27,751	188,356	0,84%	150,287
Agricultural Loans	9,416,131	233,609	293,087	28,162	161,580	3,11%	261,535
Oher Loans	5,305,055	229,859	207,924	-	198,152	3,92%	1,352
Micro business	9,601,881	495,924	662,289	358,992	372,268	6,90%	662,284
Corporate	**89,633,673**	**11,925,856**	**16,371,209**	**12,194,296**	**11,121,976**	**18,26%**	**14,881,075**
Agricultural Loans	3,965,750	59,748	195,281	-	38,821	4,92%	195,449
Manufacturing Industry	13,126,451	2,803,969	4,537,077	4,354,199	2,689,903	34,56%	4,537,077
Electricity	136,607	3,096	6,887	-	5	5,04%	6,887
Construction Loans	9,603,764	1,010,984	1,578,254	856,379	967,379	16,43%	1,572,648
Wholesale and Retal	23,942,209	899,115	1,778,283	1,541,352	616,394	7,43%	1,772,108
Services Loans	10,289,039	1,244,067	1,532,326	1,523,053	1,211,140	14,89%	1,532,326
Real Estate Loans	7.867.380	3,179,777	4,023,971	3,680,692	3,156,844	51,15%	4,024,290
Other	20,702,474	2,725,099	2,719,130	238,622	2,441,492	13,13%	1,240,289
Total	**186,269,879**	**13,775,873**	**19,031,487**	**12,906,520**	**12,586,890**	**10,22%**	**17,167,783**
Due from Banks	**22,939,457**	**225,662**	**212,067**	**-**	**212,067**	**0,92%**	**-**

(000) RSD

31.12.2018	Gross Exposure	Gross Value Adjustment	Stage 3	Stage 3 - Restructured Loans	Impairment of Stage 3	Participation of Impaired Loans in Total Loans (%)	Collateral for Impaired Loans
Retail	**93,736,907**	**1,885,105**	**2,848,318**	**856,108**	**1,499,664**	**3,04%**	**2,539,572**
Housing Loans	39,573,928	773,359	1,521,938	439,228	722,407	3,85%	1,511,459
Cash Loans	30,554,984	265,933	226,782	28,097	153,963	0,74%	132,048
Agricultural Loans	8,712,387	203,227	263,341	16,409	138,525	3,02%	237,991
Oher Loans	5,428,711	200,671	179,373	-	167,551	3,30%	1,191
Micro business	9,466,897	441,915	656,884	372,374	317,218	6,94%	656,883
Corporate	**87,958,074**	**12,264,202**	**16,648,632**	**12,241,214**	**11,365,714**	**18,93%**	**14,951,036**
Agricultural Loans	5,368,696	114,450	222,617	13,411	85,212	4,15%	222,785
Manufacturing Industry	14,604,683	2,420,833	4,160,130	3,818,420	2,322,335	28,48%	4,154,270
Electricity	99,306	3,105	27,298	-	19	27,49%	27,298
Construction Loans	7,781,109	1,205,744	1,592,833	832,676	998,515	20,47%	1,593,206
Wholesale and Retal	23,677,087	901,765	1,875,109	1,612,891	651,402	7,92%	1,868,834
Services Loans	7,280,885	1,223,932	1,494,901	1,477,865	1,187,702	20,53%	1,494,901
Real Estate Loans	4.699.746	729,500	1,323,324	983,040	704,066	28,16%	-
Other	24,446,562	5,664,873	5,952,420	3,502,911	5,416,463	24,35%	4,265,943
Total	**181,694,981**	**14,149,307**	**19,496,950**	**13,097,322**	**12,865,378**	**10,73%**	**17,490,608**
Due from Banks	**18,705,766**	**228,037**	**211,292**	**-**	**211,292**	**1,13%**	**-**

5.1.3 Performing Receivables

(000) RSD

	30.06.2019.				31.12.2018.			
	Low (IR 1,2)	Medium (IR 3,4)	Total	Value of Collaterals	Low (IR 1,2)	Medium (IR 3,4)	Total	Value of Collaterals
Housing Loans	38,037,749	135,506	38,173,255	37,927,214	37,897,797	154,193	38,051,990	37,867,041
Cash Loans	32,388,846	254,061	32,642,907	11,315,950	30,006,894	321,308	30,328,202	6,122,364
Agricultural Loans	9,050,683	72,361	9,123,044	7,193,911	8,419,685	29,361	8,449,046	6,617,026
Other	5,065,024	32,107	5,097,131	92,724	5,211,496	37,842	5,249,338	91,821
Micro Busines	8,619,838	319,754	8,939,592	8,928,034	8,414,374	395,639	8,810,013	8,804,246
Total Retail	**93,162,140**	**813,789**	**93,975,929**	**65,457,833**	**89,950,246**	**938,343**	**90,888,589**	**59,502,500**
Large corporate clients	28,689,627	3,780,705	32,470,332	32,588,690	30,369,732	5,242,708	35,612,440	32,707,216
Middle corporate clients	7,649,931	95,500	7,745,431	7,744,128	7,100,191	107,110	7,207,301	7,044,748
Small corporate clients	3,631,285	48,623	3,679,909	3,677,035	3,521,734	58,329	3,580,063	3,632,286
State owned clients	12,628,835	5,669,394	18,298,228	18,881,697	10,926,175	2,195,210	13,121,386	10,060,358
Other	7,872,029	3,196,535	11,068,564	8,334,102	11,788,160	92	11,788,252	8,742,174
Total Corporate	**60,471,707**	**12,790,757**	**73,262,463**	**71,225,653**	**63,705,993**	**7,603,449**	**71,309,442**	**62,186,782**
Total	**153,633,847**	**13,604,545**	**167,238,392**	**136,683,486**	**153,656,238**	**8,541,792**	**162,198,031**	**121,689,281**
Due from Banks	**22,727,390**	**-**	**22,727,390**	**-**	**18,494,474**	**-**	**18,494,474**	**-**

5.1.4 Restructured Receivables

Measures implemented by the Bank during the restructuring of loans

The Bank carries out various restructuring measures, depending on the client's needs, respecting the interests of the Bank with a complete understanding of the business, financial and collateral position of client.

The measures most often taken by the Bank during the restructuring of loans are:

- Extension of the maturity date, which is usually accompanied also by adjusting the interest rate that is adjusted to the financial situation of clients,
- The introduction of a grace period or moratorium on settlement of liabilities within a specified period,
- Capitalization of maturity, if there are outstanding liabilities due to date, those are in the process of restructuring returned to claims not due, i.e. new initial balance of claim is formed.
- Refinancing of receivables - in justified cases it is possible to carry out refinancing of receivables from other creditors in order to improve the Bank's position (collateral or financial, by approving more favorable conditions of payment)
- Partial write-off - in the past the Bank has not implemented a partial write-offs during the restructuring, but in the coming period, the Bank will carefully consider the justification of such measure in the restructuring process if it is reasonable, in order to reduce the debtor's obligations to the real level that can be repaid from cash flow, which will certainly be analyzed comparatively, and collateral position of the Bank with the screening of collection options, to enable the Bank to collect its claim to the maximum possible amount.
- converting debt into equity - also not done in the past, but in the coming period will be done by an individual assessment of the justification of implementing this measure, if it is the only possibility of conducting the restructuring of the Bank, i.e. the collection of receivables.

Those measures can be implemented individually or by implementing more measures depending on each individual restructuring process.

5.1.5. Concentration Risk

The Bank manages concentration risk by establishing a system of limits to the exposures with the same or similar risk factors (industry sectors/activities, product types, geographic regions, single entities or groups of related entities, collaterals…). Establishment of appropriate exposure limits is the basis for concentration risk control with the aim of loan portfolio diversification. The Bank on an annual basis, depending on market trends, risk appetite, business policy and annual business plan, reviews and if necessary changes internally set limits.

Depending on general economic trends and developments in individual industrial sectors, the Bank diversifies its investments in industrial sectors that are resistant to the impact of adverse economic developments.

In 2019, the Bank introduced a new indicator of the concentration risk (in accordance with the NBS regulations) based on exposure to certain types of products that includes a portfolio of cash, consumer and other loans (which are not residential or minus per current accounts), contracted maturity longer than 8 years.

5.2. Liquidity Risk

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

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

Liquidity risk represents the Bank's inability to settle its matured liabilities. Liquidity risk may be manifest as the risk related to sources of funds and market liquidity risk. The problem of liquidity in respect of the sources of funds relates to the structure of liabilities and is expressed through potential significant share of unstable and short-term sources of funds or their concentration. On the other hand, liquidity risk is reflected in reserves deficiency and difficulty or inability to obtain liquid assets at reasonable market prices.

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

In order to minimize liquidity risk, the Bank:

- diversifies sources of assets in respect to their currencies and maturities;
- forms sufficient liquidity reserves;
- manages monetary funds;
- monitors future cash flows and liquidity levels on a daily basis;
- limits principal sources of credit risk with most significant impact on liquidity;
- defines and periodically tests Plans for Liquidity Management in Crisis Situations.

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

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

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

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

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

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

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

The Bank's operations are reconciled daily with legally prescribed liquidity ratio and rigid/cash liquidity ratio. The legally prescribed minimum and maximum values for these ratios are defined for one working day, three consecutive working days and average for all working days within a month. During the firstquartet 2019, the Bank's liquidity and rigid liquidity ratios were significantly in excess of the prescribed limits.

The Bank's operations are reconciled daily with legally prescribed liquidity ratio as follows: minimum 0.8 for one working day; minimum 0.9 for no longer than three consecutive working days and minimum 1 as the average liquidity ratio for all working days in a month. The Bank also monitors compliance with the regulatory prescribed narrow liquidity ratio as follows: minimum 0.5 for one working day; minimum 0.6 for no longer than three consecutive working days and minimum 0.7as the average liquidity ratio for all working days in a month.

The Bank also adjust its operation with the regulated indicator of liquidity coverage ratio, which maintains at a level not lower than 100%.

Compliance with liquidity ratio limits externally prescribed:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquid Assets Coverage	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018
As at 30th	4.22	3.86	3.95	3.56	450%	395%
Average for the period	4.30	4.38	4.00	4.10	428%	444%
Maximum for the period	4.75	4.92	4.43	4.68	456%	495%
Minimum for the period	3.95	3.19	3.58	2.94	391%	388%

During the first half into 2019, the liquidity indicator, the narrow liquidity indicator and the indicator of liquid assets coverage ranged considerably above the defined limits.

The Bank sets internal limits, based on the internal reporting on liquidity GAP for all balance sheet components.

Compliance with last day liquidity ratio limits internally defined:

	Limits	30.06.2019.	31.12.2018.
GAP up to 1 month / Total assets	Max (10%)	(0.60%)	1.57%
Cumulative GAP up to 3 months / Total assets	Max (20%)	(0.66%)	1.85%

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

The report on the maturity structure of monetary assets and liabilities includes monetary balance sheet items distributed according to maturities outstanding, i.e. the conservative assumption was used that all transaction and demand deposits will be withdrawn within one month.

The Bank collects deposits of corporate and retail customers which commonly have shorter maturity periods and can be withdrawn at the client request. Short-term nature of such deposits increases the bank's liquidity risk and requires active liquidity risk management and constant monitoring of market trends.

In near term, the Bank manages liquidity risk by monitoring and controlling items in all major currencies in order to identify the needs for additional funding in a timely manner in case of maturities of certain items, i.e. in the long term, the Bank plans the structure of its funding sources and investments in order to provide sufficient stable funding sources and liquidity reserves.

The Bank's management believes that adequate diversification of the deposit portfolio per number and type of depositors as well as historical experience provide a solid basis for existence of a stable and long-term deposit base, i.e. no significant outflow of funds is expected thereof.

The Bank tests the Plans for Liquidity Management in Crisis Situations which are intended for testing potential crisis, checks the survival period and solvency, availability of funding for liabilities that could arise and assesses the support under the assumed crisis conditions.

5.3. Market Risk

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

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

5.3.1. Interest Risk

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

The Bank manages the following types of interest rate risk:

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

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

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

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

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

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

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

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

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

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

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

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

Compliance with internally defined interest rate risk limits at the last day was as follows:

	Limits	30.06.2019	31.12.2018
Relative GAP	Max 15%	2.06%	2.01%
Mismatch ratio	0.75 – 1.25	1.03	1.02

During the first half into 2019, interest rate risk indicators moved within internally defined limits.

The Bank has defined internal limits for interest rate risk exposure per major currency as well as the limit of the maximum economic value of equity.

Compliance with internally defined limits of economic value of equity:

	30.06.2019	31.12.2018
As at	4.51%	4.30%
Average for the year	5.21%	4.77%
Maximum for the year	5.56%	5.72%
Minimum for the year	4.51%	4.00%
Limit	**20%**	**20%**

The Bank's management believes that appropriate compliance of positions per interest rate type and interest rate repricing period constitutes a solid prerequisite for existence with required financial results achieved and maintenance of economic value of equity.

5.3.2. Currency Risk

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

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

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

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

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

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

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

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

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

Reporting on currency risk includes internal and external reporting systems. It is performed on a daily basis and according to set schedules and in accordance with the defined system.

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

Overview of the total currency risk balance and legally defined currency risk ratio at June 30st:

	30.06.2019	31.12.2018
Total currency risk balance	2,478,506	1,064,940
Currency risk ratio	3.4%	1.9%
Legally-defined limit	20%	20%

5.4. Operational Risk

Operational risk represents the possibility of negative effects on the Bank's financial result and equity due to employee errors (intentional or accidental), inadequate procedures and processes in the Bank, inadequate management of information and other systems in the Bank, as well as occurrence of unforeseen external events. Operational risk includes legal risk.

Operational risk is defined as an event that occurred as the result of inappropriate or unsuccessful internal processes, employee and system actions or system and other external events, internal and external abuses, hiring and security practices at the workplace, customer receivables, product distribution, fines and penalties for infractions, damage incurred to property, disruptions in operations and system errors and process management.

The Bank monitors operational risk events according to the following business lines: corporate financing, trade and sales, retail brokerage services, corporate banking, retail banking, payment transfers, client account services and asset management.

The process of operational risk management represents an integral part of the Bank's activities conducted on all levels and ensures identification, measuring, relieving, monitoring and reporting continually on operational risks ahead of their realization, as in accordance with the legal requirements and deadlines. The existing process relies on known methods of measuring operational risk exposures, database on operating losses, an updated control and reporting system.

The Bank monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Bank appoints employees who are in charge of operational risk with the objective of monitoring operational risk in its every organizational part, where such employees are responsible for accuracy and timeliness of information about all operational risk events that occur in their organizational unit, as well as for keeping records about all such events in the operational risk database. The organizational part of the Bank which is responsible for risk management monitors and reports operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee.

Measurement and assessment of operational risk at the Bank is done through quantitative and/or qualitative assessment of identified operational risk. The Bank measures operational risk exposure through event records, self-assessment and stress testing. Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement. Stress test represents an operational risk management technique which is used to assess potential effects of specific events and/or changes in several financial variables on the Bank's exposure to operational risk.

The Bank cannot eliminate all operational risks, but by introducing a rigorous framework of control, monitoring and response to potential risks it is capable of managing these risks. The Bank takes measures in order to relieve operational risks and ensure proactive response to events potentially creating operational risks through continued monitoring of all activities, application of adequate and reliable information system and by applying project approach orientation, the implementation of which helps improve the business practice and optimize the Bank's business processes.

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

With the objective of smooth and continued operation of all significant systems and processes in the Bank, and to limit losses that could be incurred in extraordinary circumstances, the Bank adopted the Business Continuity Plan, in order to ensure the restoration and recovery of the information technology systems in the event of interruption or stoppage of operations, the Bank adopted the Disaster Recovery Plan.

5.5. The Bank's Investment Risks

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

5.6. Exposure Risk

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

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

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

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

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

5.7. Country Risk

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

- Political and economic risk relates to the likelihood of losses due to the inability to collect the Bank's receivables because of deterioration in macroeconomic stability, due to limitations prescribed by government regulations or due to other structural changes in the economy of the given country;
- Transfer risk relates to the probability of losses due to the inability to collect receivables in a currency which is not the official currency in the borrower's country of origin, due to limitations to liability settlement toward creditors from other countries in specific currency that is predetermined by the official state regulations and bylaws of state and other bodies of the borrower's country of origin.

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

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

The Bank's loans approved to the borrowers domiciled outside of the Republic of Serbia for financing businesses in the Republic of Serbia, whose financial liabilities to the Bank are expected to be settled from the operating results achieved in the Republic of Serbia, represent the Bank's receivables without exposure to the risk of the borrower country of origin.

5.8. Capital management

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

The calculation of the amount of capital and capital adequacy ratios is reconciled with the Basel III regulatory standards as of June 30, 2017.

The Bank manages capital on an ongoing basis in order to:

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

The Bank's regulatory capital represents the sum of the Tier 1 Capital (Common Equity Tier 1 - CET1 Capital and Additional Tier 1 Capital) and Tier 2 Capital, reduced for deductible items.

The capital adequacy ratios represent the Bank's capital (total capital, Tier 1 capital and Common Equity Tier 1 capital) relative to the sum of: risk weighted exposure amounts for credit, counterparty, dilution risks and free deliveries; risk weighted exposure amount for settlement/delivery (except for free deliveries); risk weighted exposure amount for market risks; for operational risk; for credit valuation adjustment and risk weighted exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty, dilution risks and free deliveries are determined according to risk weights prescribed for all types of assets. Risk weighted exposure amount for operational risk is determined by multiplying the reciprocal value of the prescribed capital adequacy ratio by the capital requirement for operational risk, which represent a three-year average of the product of exposure indicators for all lines of business by the prescribed capital requirement rates for each individual business line.

Capital adequacy ratio	**30.06.2019.**	**(000) RSD 31.12.2018.**
Tier 1 (T1) Capital	63,764,063	58,512,822
Common Equity Tier 1 (CET1) Capital	63,390,553	58,139,312
Additional Tier 1 (AT1) Capital	373,510	373,510
Tier 2 (T2) Capital	-	-
Deductible items	(1,615,316)	(1,473,139)
Capital	**62,148,748**	**57,039,683**
Credit risk-weighted assets	168,355,775	161,828,271
Operational risk exposure	32,768,254	31,379,213
Foreign currency risk exposure	5,447,424	2,281,232
Capital adequacy ratio (min. 14.20%)	**30.09%**	**29.18%**
Share capital adequacy ratio (min. 12.20%)	**30.09%**	**29.18%**
Basic share capital adequacy ratio (min. 10.70%)	**29.91%**	**28.99%**

During the second quarter of 2019, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of the adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively).

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

During Q2 2019, the Bank also calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of Tier 1 capital and the amount of risk weighted exposures that are included in the calculation of the ratio.

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

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

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

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

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

Stages of the internal capital adequacy assessment include the following:

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

6. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of Komercijalna banka AD Beograd, at its session held on 27 June 2019, passed the decision on forwarding the invitation for the extraordinary General Meeting of Bank's Shareholders, which is scheduled for 23 July 2019, with the draft agenda that included the change in the composition of the members of the Bank's Board of Directors.

Based on decision of the Supreme Court of Cassation, for one court dispute based on compensation for damage, previous judgements of the Commercial Court of Appeal and the Commercial Court in Belgrade have been revoked which were delivered in favour of the Bank and the case has been returned to the first instance court for retrial. According to the decision of the Supreme Court of Cassation, the Bank was obliged to return the funds to the payer. On this basis on 18.07.2019 the Bank returned the payment amounting to RSD 231,116 thousand.

7. FOREIGN EXCHANGE RATES

Foreign exchange rates established on the interbank meeting of the FOREX market applied in re-calculation of the balance sheet positions in Dinars (RSD) on 30 June 2019 and 31 December 2018 for certain main currencies are as follows:

Currencies	Official NBS exchange rate	
	2019.	2018.
USD	103.7685	103.3893
EUR	117.9121	118.1946
CHF	106.3613	104.9779

In Belgrade,

On 13 August 2019

Persons responsible for preparation
of the financial statements

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Account number: 908-20501-70
SWIFT: KOBBCSBG
E-mail: posta@kombank.com

STATEMENT

In our opinion, quarterly financial statements for the period 01.01.2019 to 30.06.2019. present fairly, in all material respects, the financial position of Komercijalna banka AD Beograd, its assets, liabilities, gains and losses as well as results of its operations, and have been prepared in accordance with the Law on Accounting, Law on Banks and other relevant by-laws of the National Bank of Serbia as well as the International Accounting Standards and International Financial Reporting Standards (IAS and IFRS).

Persons responsible for the preparation of financial statements

Sanja Đeković
Executive Director for Finance and Accounting

Miroslav Perić, PhD
Member of the Executive Board

БЕОГРАД 4

KOMERCIJALNA BANKA AD BEOGRAD

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Registration number: 07737068
Tax Identification Number: SR 100001931
VAT number: 134968641
Activity code: 6419
Business Registers Agency: 10156/2005
Account number: 908-20501-70
SWIFT: KOBBCSBG
E-mail: posta@kombank.com

STATEMENT

Individual financial statements of Komercijalna banka AD Beograd for the period 01.01.2019. until 30.06.2019. have not been audited.

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

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

Persons responsible for the preparation of financial statements

Sanja Đeković	Miroslav Perić, PhD
Executive Director for Finance and Accounting	Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД 4