# QUARTERLY REPORT OF KOMERCIJALNA BANKA AD BEOGRAD FOR Q3 2019

Belgrade, November 2019

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# REPORT ON OPERATION OF THE BANK FOR THIRD QUARTER 2019

Belgrade, November 2019

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## 1. OVERVIEW OF KEY PERFORMANCE RATIOS IN THE PERIOD FROM 01.01 TO 30.09.2019

| POSITION | 30.09.19. | 31.08.19. | 31.07.19. | 30.06.19. | 31.03.19. | 2018. | 2017. |
|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT** (000 RSD) | | | | | | | |
| Profit before tax | 7.087.038 | 5.839.747 | 5.097.121 | 4.338.646 | 1.668.492 | 8.121.073 | 7.187.250 |
| Net interest income | 9.460.300 | 8.404.978 | 7.360.805 | 6.307.132 | 3.131.566 | 12.834.638 | 12.446.197 |
| Net fee income | 4.017.252 | 3.542.017 | 3.088.589 | 2.604.550 | 1.216.082 | 5.210.149 | 5.082.227 |
| Operating costs | 7.793.736 | 6.924.294 | 6.070.814 | 5.178.212 | 2.563.317 | 10.473.783 | 10.833.081 |
| Net income from impairment of financial assets which are not measured at fair value through profit or loss | 2.484.718 | 1.825.734 | 1.753.111 | 1.637.952 | 442.079 | 9.493 | 17.883 |

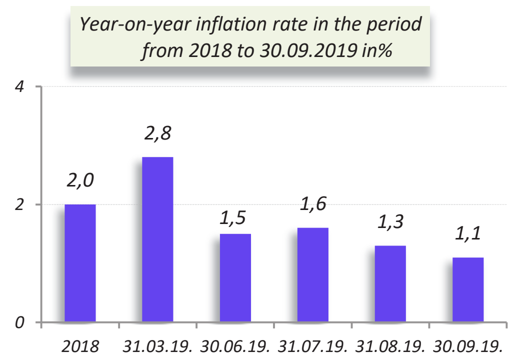
| POSITION | 30.09.19. | 31.08.19. | 31.07.19. | 30.06.19. | 31.03.19. | 2018. | 2017. |
|---|---|---|---|---|---|---|---|
| **BALANC SHEET** (000 RSD) | | | | | | | |
| Balance sheet assets | 419.908.961 | 418.630.391 | 415.565.231 | 412.275.059 | 403.260.675 | 401.165.980 | 369.183.538 |
| Off-balance sheet operations | 483.647.134 | 453.263.561 | 445.277.108 | 444.423.385 | 466.020.108 | 457.820.051 | 474.428.780 |
| **RETAIL** | | | | | | | |
| Loans[1] | 97.579.371 | 96.889.557 | 96.088.282 | 94.922.028 | 93.529.637 | 92.033.605 | 81.712.222 |
| Deposits[2] | 274.359.959 | 273.607.319 | 270.584.391 | 267.657.937 | 262.592.960 | 260.296.411 | 241.210.420* |
| **CORPORATE** | | | | | | | |
| Loans | 78.797.919 | 78.945.212 | 77.460.425 | 77.120.481 | 76.996.034 | 75.264.373 | 71.725.704 |
| Deposits | 44.152.190 | 44.638.233 | 46.554.355 | 47.351.144 | 47.449.645 | 49.879.580 | 41.371.592** |

| RATIOS | 30.09.19. | 31.08.19. | 31.07.19. | 30.06.19. | 31.03.19. | 2018. | 2017. |
|---|---|---|---|---|---|---|---|
| **LOAN TO DEPOSIT RATIO** | | | | | | | |
| Gross loans/deposits | 57,90% | 58,85% | 58,99% | 58,79% | 58,53% | 58,35% | 61,30% |
| Net loans/deposits | 55,05% | 55,57% | 55,64% | 55,35% | 54,95% | 54,76% | 56,11% |
| **CAPITAL** (000 RSD) | 72.578.205 | 71.601.209 | 70.392.837 | 69.021.365 | 68.813.271 | 67.560.513 | 63.260.055 |
| Capital adequacy | 30,86% | 30,62% | 30,46% | 30,09% | 27,95% | 29,18% | 27,89% |
| Number of employees | 2.761 | 2.763 | 2.764 | 2.757 | 2.754 | 2.766 | 2.806 |
| **PROFITABILITY RATIOS** | | | | | | | |
| POA | 2,3% | 2,1% | 2,1% | 2,1% | 1,7% | 2,1% | 1,9% |
| POE – total capital | 13,7% | 12,7% | 12,8% | 12,8% | 9,7% | 12,6% | 11,9% |
| Net interest margin on total assets | 3,1% | 3,1% | 3,1% | 3,1% | 3,1% | 3,4% | 3,3% |
| Cost / income ratio | 57,8% | 58,0% | 58,1% | 58,1% | 59,0% | 58,0% | 61,8% |
| Operating cash flows | 8.476.701 | 7.603.004 | 6.888.272 | 6.623.747 | 4.307.020 | 9.379.217 | 9.231.864 |
| Asset per employee (000 EUR) | 1.294 | 1.286 | 1.277 | 1.268 | 1.241 | 1.227 | 1.111 |
| Asset per employee (000 RSD) | 152.086 | 151.513 | 150.349 | 149.538 | 146.427 | 145.035 | 131.569 |

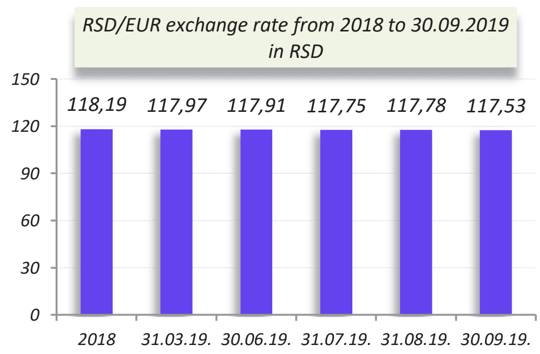
1 Position loans (retail and corporate) does not include other loans and receivables
2 Position deposits does not include other liabilities and funds received through credit lines
* Since 01.01.2018 deposits of micro-clients were transferred from the corporate business function of the to retail business function.
**Idem

## *2. MACRO-ECONOMIC OPERATING CONDITIONS FROM 01.01 TO 30.09.2019*

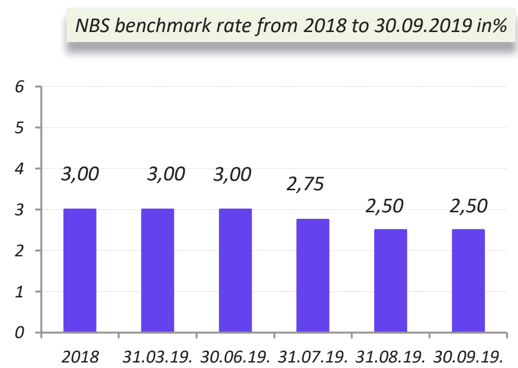
At the end of the third quarter of the current year, year-on-year inflation is on a downward trend and moving within the target rate limits for 2019 (3.0% ± 1.5pp). The year-on-year (mg) inflation rate at the end of the third quarter of 2019 is 1.1%, while monthly inflation and deflation is -0.5%. Monthly inflation was driven by a fall in the prices of fresh vegetables and a fall in the prices of package tours.




In the first three quarters of the current year, the dinar did not fluctuate significantly against the euro. The dinar exchange rate was around the value of 117 dinars for one euro. At the end of the third quarter of 2019, the dinar appreciated 0.6% compared to the end of 2018. The National Bank of Serbia intervened in the inter-bank foreign exchange market (MDT) with a net purchase of EUR 2,115.0 million, which is more than last year in the same period.




By the end of the third quarter of 2019, the National Bank of Serbia decreased the benchmark interest rate (RKS) twice in view of inflation and other macroeconomic indicators. Year-on-year inflation remained within the target value (3.0% ± 1.5 p.p.) during the third quarter. However, prudence in conducting monetary policy is needed because of the tendencies in the international environment, trade and customs policies, and the slowdown in global economic growth. Leading central banks, the US Federal Reserves and the European Central Bank are trying to support the global economy. The price of oil on the world market is still volatile. Resilience of the domestic economy to external events has increased thanks to increased foreign exchange reserves, expected economic growth of 3.5% and public finance surplus.

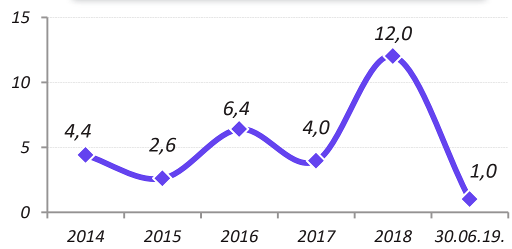


## *3. THE BANKING SECTOR AND THE FINANCIAL POSITION OF THE BANK*

At the end of June 2019, the banking sector of the Republic of Serbia comprises 26 banks, with total assets of RSD 3,810.0 billion and total capital of RSD 664.8 billion[3]. The ten largest banks, in terms of balance sheet assets, account for 80.0% of total sector assets. The banking sector's pre-tax net result is down 5.7% compared the same period in 2018. In the observed period, KB was ranked third in terms of balance sheet assets and fourth in pre-tax profit within the banking sector.

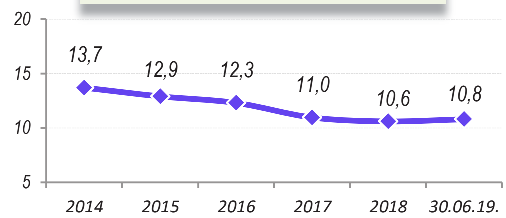
The banking sector in the Republic of Serbia recorded a slight increase in balance sheet assets of 1.0% at the end of June 2019, compared to the end of 2018. On 30.06.2019, the total capital of the sector decreased by 1.8% compared to the end of 2018. Capital adequacy of the banking sector was 23.2% at the end of August 2019*.

*Tendencies of the balance sheet assets of the banking sector from 2014 to 30.06.19 in%*



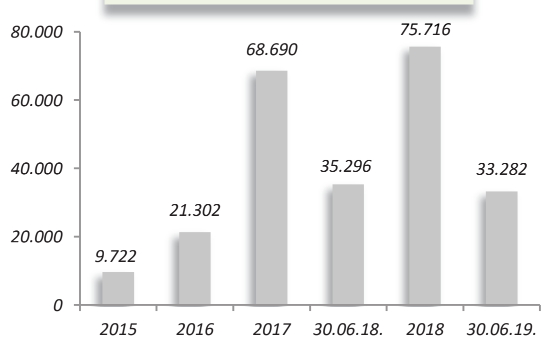

At the end of June 2019, KB had 10.8% share in the banking sector's assets, while the Bank holds 10.4% share in equity. Business policy of prudent credit portfolio management and high coverage of NPLs with impairment provisions did not result in KB significantly changing its share in the banking sector assets during 2018 and the first three quarters of 2019.

*Trend of KB's market share from 2014 to 30.06.19 in%*




At the end of June 2019, the banking sector recorded a decline in profitability compared to the same period in 2018. At the end of June 2019, a positive net financial result before tax of RSD 33.3 billion was generated. In the observed period, 18 banks operated positively with a total result of RSD 36.4 billion, while 8 banks operated negatively with a total loss of RSD 3.1 billion.

*Profit of the banking sector from 2015 to 30.06.19 in millions of RSD*




3 This Overview has been prepared based on the available official data from National Bank of Serbia's web page
*NBS, Macro-economic trends in Serbia, October 2019

## 4. ORGANIZATIONAL STRUCTURE AND BANK BODIES

The Board of Directors of the Bank was formed in accordance with the Law on Banks and the Shareholders Agreement – between the Republic of Serbia and a group of the international financial institutions and consists of nine members, including the Chairman, three of whom are independent of the Bank. At least three members of the Board of Directors of the Bank must have relevant experience in finance. The members of the Board of Directors of the Bank are appointed by the General Meeting of Shareholders of the Bank to a four-year term.
The powers of the Bank's Board of Directors are defined in Article 73 of the Law of Banks and Article 27 of the Bank's Articles of Association. Members of the Board of Directors of the Bank as at 30.09.2019 are:

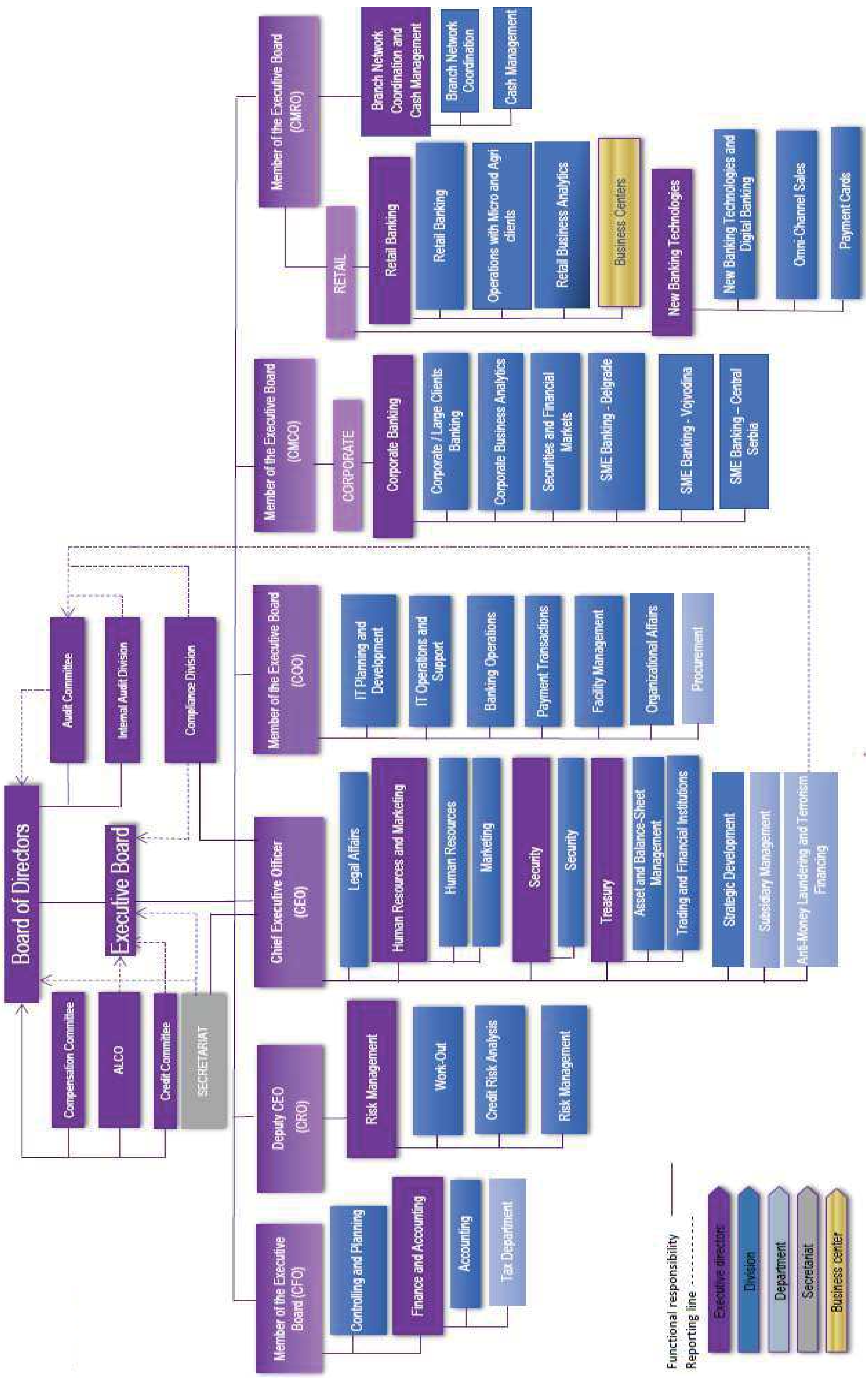
| FIRST AND LAST NAME | POSITION |
|---|---|
| Marija Sokić | Chairman, representative of the Republic of Serbia |
| Daniel Pantić, PhD | Member, representative of the Republic of Serbia |
| Dejan Hadžić | Member, representative of the Republic of Serbia |
| Aleksei Germanovich | Member, EBRD Representative |
| Anthony Myron | Member, EBRD Representative |
| Javed Hamid | Member, IFC representative |
| Katarina Šušić | Independent member |
| Goran Knežević | Independent member |
| Zoran Jović Prof PhD | Independent member |

The Executive Board consists of the President of the Executive Board, the 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 Deputy President is four years from the date of appointment.
Responsibilities of the Executive Committee are defined in Article 76 of the Law on Banks and Article 31 of KB's Articles of Association.
As at 30.09.2019, member of the Executive Board of the Bank are:

| FIRST AND LAST NAME | POSITION |
|---|---|
| Vladimir Medan, PhD | President |
| Una Sikimić, PhD | Deputy President |
| Miroslav Perić, PhD | Member |
| Dragiša Stanojević | Member |
| Pavao Marjanović | Member |

The Audit Committee of the Bank comprises of three members, two are members of KB's Board of Directors having appropriate experience in the field of finances. One member of the Audit Committee is a person independent of the Bank. The members of the Committee are elected to a four-year term.
Duties of the Audit Committee are defined in Article 80 of the Law on Banks and Article 34 of KB's Articles of Association. As at 30.09.2019, the members of the Audit Committee on are:

| FIRST AND LAST NAME | POSITION |
|---|---|
| Daniel Pantić, PhD | Chairman |
| Javed Hamid | Member |
| Milena Kovačević | Member |




*Note: Organizational Chart of the Bank as at 30.09.2019.*

## 5. FINANCIAL POSITION AND PERFORMANCE RESULTS OF THE BANK FROM 01.01. TO 30.09.2019

| POSITION | 30.09.19. | 31.08.19. | 31.07.19. | 30.06.19. | 31.03.19. | 2018. | 2017. |
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| **BALANCE SHEET** (000 RSD) | | | | | | | |
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| Deposits | 44.152.190 | 44.638.233 | 46.554.355 | 47.351.144 | 47.449.645 | 49.879.580 | 41.371.592** |

**Note: As of 01.01.2018 deposits of micro-clients were transferred from corporate business function to retail banking, which is why the information published in the Annual Report for 2017 differs – correction was done for the sake of comparability of data from 2017 with the data from 2018*
*** Idem*

At the end of Q3 2019, the Bank's balance sheet assets amounted to RSD 419,909.0 million and increased by RSD 18,743.0 million compared to the end of 2018.

Off-balance sheet assets increased by 5.6%, amounting to RSD 483,647.1 million at the end of September this year.

In the first nine months of 2019, the Bank continued to reduce debt through lines of credit in the amount of RSD 1,196.4 million compared to the balance at the end of 2018 (42.5%). During the same period, the Bank recorded an increase in deposits (excluding other liabilities and credit lines) in the amount of RSD 8,114.3 million or 2.2%. Within the structure of the mentioned change, retail deposits increased by RSD 14,063.5 million, while corporate deposits decreased by RSD 5,949.3 million. These changes also include the effect of appreciation of the dinar against the euro (0.6%) and depreciation against the Swiss franc (3.1%) and the US dollar (3.8%), from the beginning of the year to the end of the third quarter of 2019.

| POSITION | 30.09.19. | 31.08.19. | 31.07.19. | 30.06.19. | 31.03.19. | 2018. | 2017. |
|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT** (000 RSD) | | | | | | | |
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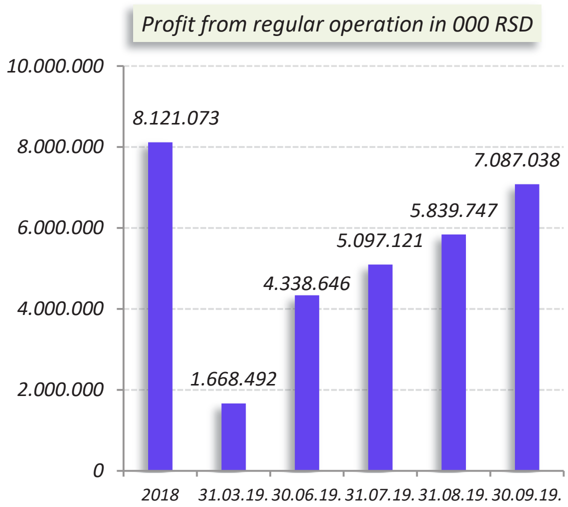
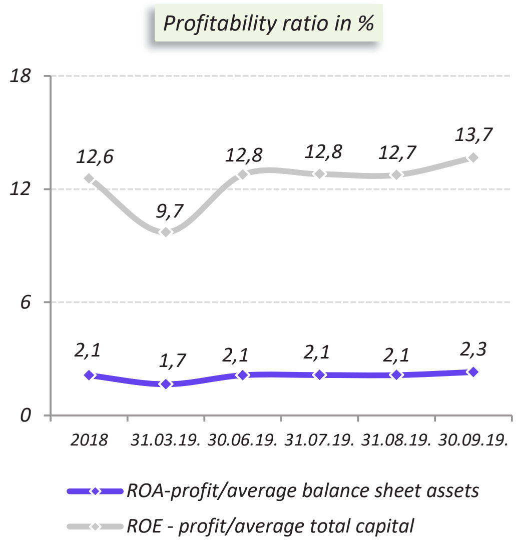
| Operating costs | 7.793.736 | 6.924.294 | 6.070.814 | 5.178.212 | 2.563.317 | 10.473.783 | 10.833.081 |
| Net income from impairment of financial assets which are not measured at fair value through profit or loss | 2.484.718 | 1.825.734 | 1.753.111 | 1.637.952 | 442.079 | 9.493 | 17.883 |
| **PROFITABILITY RATIOS** | | | | | | | |
| POA | 2,3% | 2,1% | 2,1% | 2,1% | 1,7% | 2,1% | 1,9% |
| POE – on total capital | 13,7% | 12,7% | 12,8% | 12,8% | 9,7% | 12,6% | 11,9% |
| Net interest margin on total assets | 3,1% | 3,1% | 3,1% | 3,1% | 3,1% | 3,4% | 3,3% |
| Cost / income ratio | 57,8% | 58,0% | 58,1% | 58,1% | 59,0% | 58,0% | 61,8% |
| Operational cash flows | 8.476.701 | 7.603.004 | 6.888.272 | 6.623.747 | 4.307.020 | 9.379.217 | 9.231.864 |
| Asset per employee (000 EUR) | 1.294 | 1.286 | 1.277 | 1.268 | 1.241 | 1.227 | 1.111 |
| Asset per employee (000 RSD | 152.086 | 151.513 | 150.349 | 149.538 | 146.427 | 145.035 | 131.569 |




In the first three quarters of 2019, the Bank achieved a higher amount of pre-tax profit compared to the same period of the previous year. Profit before tax generated in the period 01.01. to 30.09.2019 amounted to RSD 7,087.0 million, which is an increase of RSD 575.3 million (8.8%) compared to the same period last year. This amount of generated profit before tax resulted in return on total capital of 13.7%, or a return on balance sheet assets of 2.3% achieved by the Bank in the first three quarters of 2019.

Profit developments in the first three quarters of 2019 compared to the same period last year were driven by an increase in net income from impairment of financial assets not valued at fair value in the amount of RSD 2,317.0 million, an increase in other expenses in amounting to RSD 703.0 million, net loss resulting from de-recognition of financial instruments valued at amortized cost in the amount of RSD 579.9 million, unlike same period last year's net profit. Other income also increased by RSD 219.1 million compared to the same period last year. Depreciation costs have increased by RSD 340.4 million, which is largely a result of the implementation of the new IFRS 16 standard (effective from 1 January 2019), which largely equates rent with 'leasing' and according to which lease costs (except for short-term leases) are recorded at depreciation expense.

Due to the increase in business volume and a slight decrease in the number of employees in the first nine months of 2019, assets per employee at the Bank increased from RSD 145.0 million (31 December 2018) to RSD 152.1 million at the end of the third quarter of 2019.

At the end of the third quarter of this year, „Cost income ratio“(CIR) amounted 57.8%, while at the end of the same period last year it was 57.9%.

### *5.1. Retail Banking*

In the first nine months, retail business continued to grow and achieved, by most indicators, significant results.

Loans

The focus was on growing lending and increasing loan portfolio, generating net income and maintaining market share.

As of September 30, 2019, loans worth RSD 35.2 billion were realized, which is RSD 900 million more than in the same period in 2018. Credit growth has been driven by constant product innovation, improved procedures and technological solutions.

Realization is higher in the segment of housing, agricultural and non-residential loans, while in micro business loans it remained approximately the same as in the same period of the previous year.

The highest increase in realization was generated in the segment of **housing loans** (28.7%) due to satisfactory product supply and significant demand in the real estate market. There is a noticeable upward trend in the market and in the Bank for loans that are not secured by the National Mortgage Insurance Corporation (NMIC). Considering the favourable market offer, the Bank also applies a customer retention policy in order to preserve the quality and the amount of the portfolio. On 30.09.2019, the Bank's market share amounted to 10.4% and was higher by 0.09 p.p. than at 31 December 2018.

In the segment of **cash loans** the realization increased by RSD 170 million compared to the same period last year. As of 01.01.2019, according to the NBS Decision, borrowing of cash loans is limited to a maximum term of 95 months, and liabilities for overdrafts and debit cards with deferred payment are taken into account when calculating credit standing, which led to a decrease in the average amount of loans. This is the segment with the most intense competition, where the offer is based on large amounts and promissory notes as instrument of security, with favourable interest rates. Also, the offer is increasingly based on personalized offers for specific client groups, and especially for high-income clients. Much attention is also paid to the loans that aim retired clients, since they make up a significant number of clients. The Bank's market share in this segment on was 7.6% on 30.9.2019, which is higher by 0.07 p.p. than on December 31, 2018.

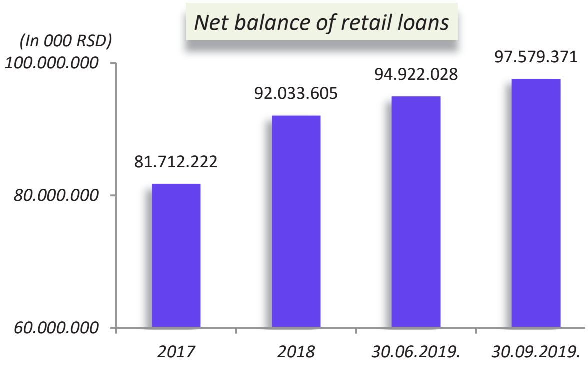
Loan realization increased by 0.9% in **agro business segment.** The first nine months were dominated by loans from own supply (especially in the first half), as well as subsidized loans, whose approval began at the end of the first half of the year, as well as the loans from the "Fair Offer" whose approval also began at the end of the first half of the year and continued to the third quarter. 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 0.04 p.p. to 13.7%.

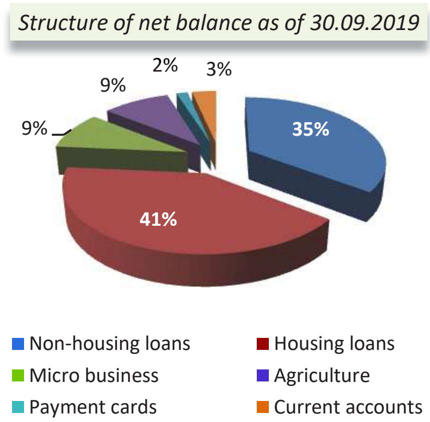
In **micro business** segment realization of loans is at approximately the same level as in the same period last year. In addition to the regular ones, the offer in this segment is largely based on specially designed promotional products, in order to be competitive in the market at any moment. At the end of the third quarter, KB launched more intensive realization of loans in cooperation with local self-government, and also began to approve loans from the EDIF program. This segment covers entrepreneurs and micro-enterprises. In the segment of entrepreneurs, the Bank's market share increased as of September 30, 2019, amounting to 9.2%.

During the first nine months, cash loans accounted for the highest amount (51.1% of total sales), followed by loans to micro-business (21.5%), housing loans (14.3%) and farmers (13.1%).

All of the above resulted in the growth of retail loans net balance by RSD 5.5 billion achieved on 31.12.2018. If the housing loans indexed to CHF had not been converted, the net balance would have grown over RSD 6.5 billion.

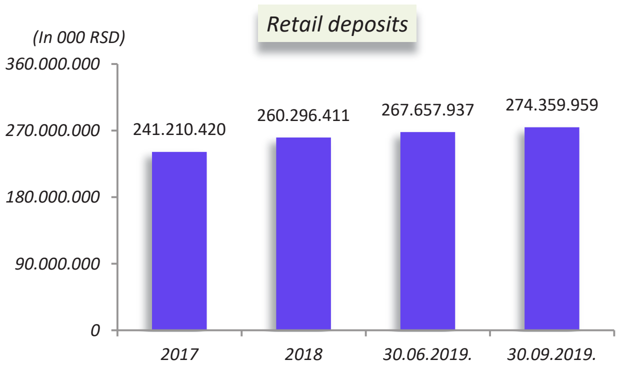
The share of housing loans in the net structure declined (41.0%) and the share of other, more profitable products increased (59.0%)).



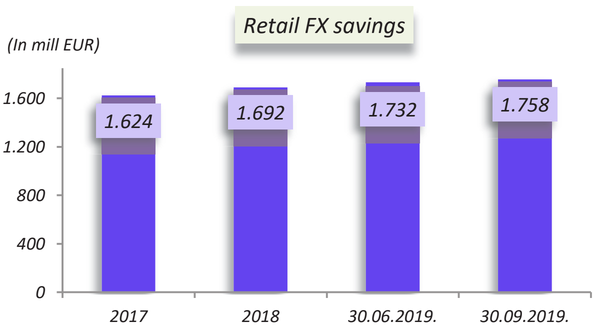

Deposits[4]

On 30.09.2019, retail deposits increased by RSD 14.1 billion or 5.4%, thereby continuing a stable trend of deposits growth.




On 30.09.2019, The total retail foreign currency deposits in the banking market (excluding micro-enterprises) increased by EUR 633 million, while the Bank maintained its leading position in the market with a share of 18% and an increase of EUR 75 million.

If we observe the classic retail foreign currency savings, it has increased by EUR 66 million during the first nine months.




* *Presented foreign currency savings do not include dedicated foreign currency savings accounts (retirees) and entrepreneurs*

The share of term savings with a maturity of 12 months and longer decreased in the retail foreign currency savings by 29.8%, while the share of a' vista savings which now stand at 66.9% increased. Savings deposits of up to € 50,000 dominate (in numbers over 99%, in the amount of 74%).

4 Position deposits do not include other liabilities and funds received through credit lines

After falling during a number of years, interest payable for retail FX savings is at a standstill (on 30.9.2019. amount 0.23%). Interest payable is expected to continue with stagnation in the coming period, or to grow mildly. The clients recognize KB as a trustworthy institution, so the deposits constantly grow.

Other products

„Sets of accounts" for individual clients continue to conquer the market, in the nine months of 2019 about 47.600 „set accounts", were opened, of which about 7.600 „sets" for the youngest clients (18-27 years) which forms the basis for safe business in the future.
Micro Business Account Sets continue a positive trend from last year, and in the first nine months of 2019, another 4,400 customers opened a "Set Account".
Clients currently have around 950,000 payment cards, 45% of which are regularly used.

Digitalization of business

Digital channels (electronic banking) have introduced the CRM tool, which, analyses the interaction with the clients upon obtaining their consent to do so, and accordingly offers them products and services that fit to their needs and capabilities. In addition, based on customer feedback, KB has optimized, redesigned and enhanced the application for retail electronic banking - the "eBankWEB", thereby improving the customer experience. Due to these improvements, the number of clients who regularly use electronic and mobile banking for payments (by about 71,000 individual and 13,000 micro-business clients) has been increased by 5,000. Transition of all the users to version "WEB 3.0" has been prepared and is expected to take effect on 5.11.2019. Also, the start of production for the solution "Instant payments" enters the final phase at the points of sale which have been authorized by NBS, i.e. the Bank has got the permission to start pilot production and engagement of the first two merchants.

Business network

In the retail segment KB operates in 203 branch offices, which makes our Bank the market leader in coverage and accessibility to our customers. There are 278 ATMs available to our customers (7 more than on December 31, 2018) and about 13,800 POS terminals (about 160 more than on December 31, 2018), making us one of the market leaders. Keeping in mind the needs of the clients, the Bank continued its activities to improve the customer experience by improving the look of its branch offices, moving to new premises, adjusting working hours, similar activities.

Profitability

Due to all undertaken business activities, the retail banking segment generated total net interest and fee income in the first nine months of 2019 in the amount of RSD 7,648.3 million, which is an increase of 4.4% (RSD 324.1 million) compared to the same period last year.

### *5.2. Corporate Operations*

Market-main tendencies

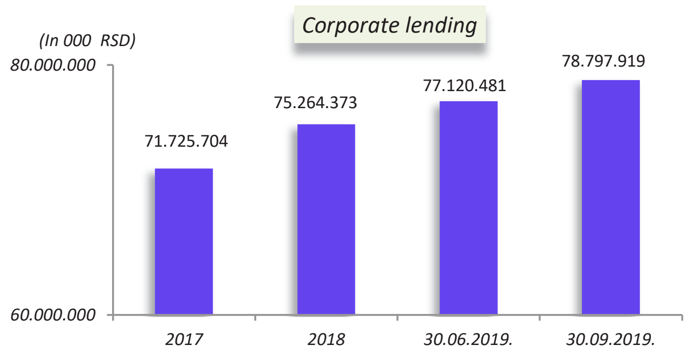
In 2019, the downward trend in RSD interest rates has continued, despite the stabilization of the National Bank of Serbia's benchmark interest rate and the reduction of interest rates on foreign currency indexed loans. The fall in interest rates on Euro-indexed loans was compounded by a sharp fall in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

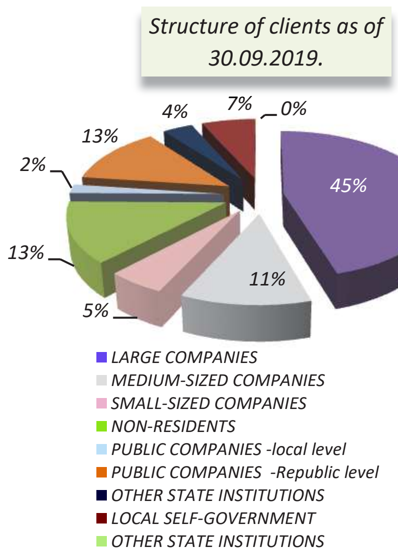
Banks' standards for newly approved corporate loans, which eased in 2018, remained unchanged in 2019, primarily for small and medium-sized enterprises and, to a lesser extent, large enterprises. In terms of maturity and currency, the easing of standards is present in the short and long-term RSD corporate lending, as well as the short-term FX corporate lending. Banks are also more willing to take risks in corporate lending segment (especially in the area of loan collateralization).

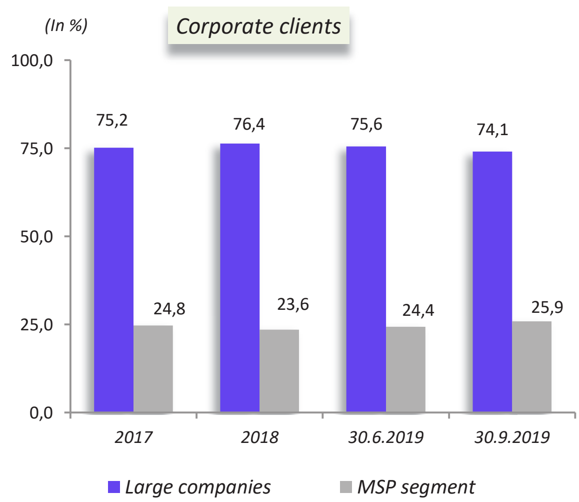
At the banking sector level, the level of net loans is higher than at the end of 2018 (total companies and public companies recorded a growth of 4%, or RSD 49.0 billion).[5]

Loans[6]

Sales of newly approved loans in 2019 increased by RSD 3.9 billion or 11.1% compared to the same period in 2018 (RSD 0.25 billion lower in the Large Corporate Clients segment and RSD 4.15 billion higher in SMEs segment). In the structure of clients by segment, the share of large corporate clients decreased from 76.4% (at the end of 2018) to 74.1%.




The interest rate on loans indexed in EUR is still lower compared to RSD loans, which in the conditions of stable exchange rate was the determining factor of higher market demand for loans with a currency sign compared to RSD loans. Accordingly, the share of RSD loans in the portfolio at the end of the third quarter of 2019 reached a level of only 5.9%.

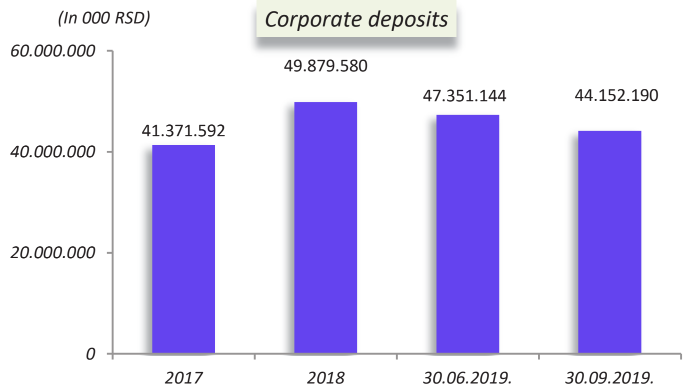
In terms of competition during the third quarter of 2019, the most active were Banka Intesa a.d. Beograd, UniCredit Banka Serbia a.d. Beograd, Raiffeisen Banka a.d. Beograd, Societe Generale Banka a.d. Beograd, with occasional special actions in the market of the following banks: ProCredit a.d. Beograd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

5 NBS, Banking Sector Consolidated Balance Sheet, August 2019.

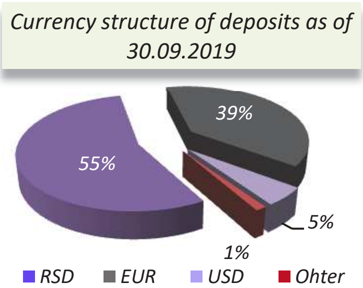
6 The position of granted loans and deposits not include other loans

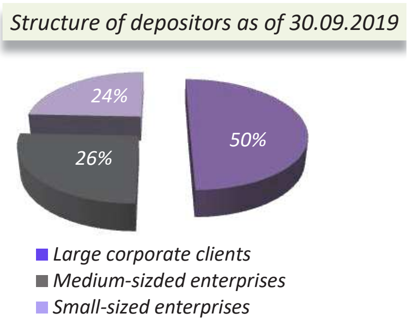
## Deposits[7]

A high share of transaction deposits of 75.3% 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 the micro-clients' deposits as of in retail business line, implemented since 01.01.2018.

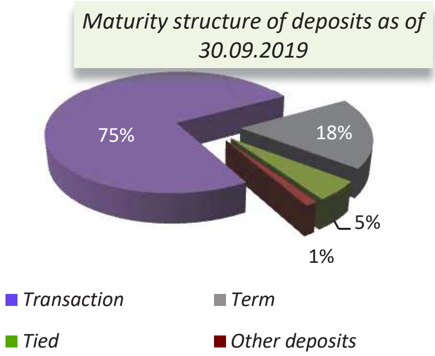


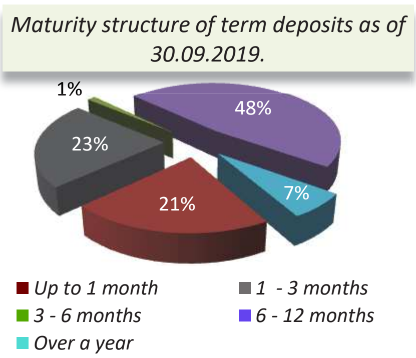

*Note: At the end of 2017, RSD 11.2 billion of micro customer deposits were transferred from corporate to retail business segment, which is why the data differs from the data presented in the Annual Report for 2017.*




*Note: the overview of depositors' structure has been prepared on the basis of the internal client segmentation.*




7 Position deposits does not include other liabilities and funds received through credit lines

### 5.3. Assets Management – Treasury

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

The environment in which the Treasury function was operating as of the third quarter of 2019, was marked by a continuation of the downward trend in yields on domestic government securities, significant interventions by the National Bank of Serbia in the foreign exchange market and negative interest rates on EUR and CHF in foreign markets, all of which, given the available funds, posed a very significant challenge in managing liquidity.

Compared to the same period in 2018, there was a 3.0% increase in generating results.

As of the third 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 investments in the inter-bank market, reverse REPURCHASE operations with National Bank of Serbia, inter-bank REPURCHASE transactions, and excess liquidity deposited with the National Bank of Serbia as overnight loan.

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

On 01.08.2019 the Bank has concluded a Guarantee Instrument Agreement with the European Investment Fund (EIF) under the COSME program to support the competitiveness of the SME business segment.

The balance of trilateral credit lines concluded with the National Bank of Serbia as an Agent amounts to EUR 13.8 million.

## 6. BALANCE SHEET AS OF 30.09.2019

### 6.1. Bank's Assets as of 30.09.2019

(In 000 RSD)

| No. | BALANCE SHEET POSITION | 30.09.2019 | 31.12.2018 | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=3/4 |
| 1 | Cash and balances held with the Central bank | 65.844.960 | 63.595.710 | 103,5 |
| 2 | Pledged financial assets - Assets encumbrance | - | - | - |
| 3 | Receivables from derivatives | - | 4.070 | - |
| 4 | Securities | 134.317.485 | 133.177.598 | 100,9 |
| 5 | Loans and receivables from banks and other financial organisations | 21.517.704 | 18.477.729 | 116,5 |
| 6 | Loans and receivables from customers | 176.873.009 | 167.545.674 | 105,6 |
| 7 | Changes in fair value of hedging items | - | - | - |
| 8 | Receivables from hedging financial derivatives | - | - | - |
| 9 | Investments in associates and joint ventures | - | - | - |
| 10 | Investments in subsidiaries | 3.438.573 | 2.611.859 | 131,7 |
| 11 | Intangible assets | 642.890 | 557.051 | 115,4 |
| 12 | Property, plants and equipment | 6.478.517 | 5.619.078 | 115,3 |
| 13 | Investment property | 1.867.532 | 1.896.347 | 98,5 |
| 14 | Current tax assets | - | - | - |
| 15 | Deferred tax assets | 1.429.824 | 840.967 | 170,0 |
| 16 | Non-current assets held for sale and discontinued operations | 227.630 | 227.630 | 100,0 |
| 17 | Other assets | 7.270.837 | 6.612.267 | 110,0 |
| | **TOTAL ASSETS (from 1 to 17)** | **419.908.961** | **401.165.980** | 104,7 |

The Bank's balance sheet assets at the end of the third quarter of 2019 increased by RSD 18,743.0 million or 4.7% compared to the end of 2018.
Considering the structure of the presented balance sheet positions of the Bank, loans and receivables from customers increased by RSD 9,327.3 million or 5.6%, while loans and receivables from banks and other financial organizations increased by RSD 3,040.0 million or 16.5%. Total loans and receivables from customers and banks amount to RSD 198,390.7 million, which represents 47.2% of the total balance sheet assets of the Bank at the end of the third quarter of 2019.

The position of the security increased during the first three quarters of 2019 by RSD 1,139.9 million or 0.9%. Much of the increase is the result of an increase in securities that are measured at fair value through profit or loss in dinars and foreign currencies.

Cash and balances with the Central Bank increased by RSD 2,249.3 million or 3.5% compared to the end of 2018, mainly due to an increase in cash in hand in foreign currency (an increase of RSD 7,967.2 million).

Among other positions, during the first three quarters of the current year, there was a significant increase in the position of property, plant and equipment in the amount of RSD 859.4 million, mainly as a result of the implementation of the new IFRS 16. Standard implementation (as of 01.01.2019) resulted in the recording of liabilities arising from fixed assets taken into leasing in the amount of RSD 1,364.5 million as at 30.09.2019.

The position investments in subsidiaries increased during the first three quarter of 2019, as a result of new assessment of fair value of investments and dependent banks abroad issued by an independent appraiser. Increase of the position investments in subsidiaries in the amount of RSD 826.7 million was the result of reduced impairments of shares in equity of dependent banks abroad. This change caused the growth of income from suspension of indirect write-offs in equity of dependent banks valued at cost.

### 6.2. Bank's Liabilities as of 30.09.2019

(In 000 RSD)

| No. | BALANCE SHEET POSITION | 30.09.2019 | 31.12.2018 | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=3/4 |
| 1 | Liabilities based on derivatives | - | - | - |
| 2 | Deposits and other financial liabilities due to banks, other financial organisations and Central Bank | 4.724.763 | 5.662.748 | 83,4 |
| 3 | Deposits and other financial liabilities due to customers | 325.241.489 | 317.229.084 | 102,5 |
| 4 | Liabilities based on hedging derivative instruments | - | - | - |
| 5 | Changes in fair value of hedging items | - | - | - |
| 6 | Liabilities arising from securities | - | - | - |
| 7 | Subordinated debts | - | - | - |
| 8 | Provisions | 2.346.247 | 1.653.663 | 141,9 |
| 9 | Liabilities under non-current assets held for sale and discontinued operations | - | - | - |
| 10 | Currant tax liabilities | - | - | - |
| 11 | Deferred tax liabilities | 891.890 | - | - |
| 12 | Other liabilities | 14.126.367 | 9.059.972 | 155,9 |
| | **TOTAL LIABILITIES (from 1 to 12)** | **347.330.756** | **333.605.467** | 104,1 |
| | **CAPITAL** | | | |
| 13 | Shares capital | 40.034.550 | 40.034.550 | 100,0 |
| 14 | Own shares | - | - | - |
| 15 | Profit | 8.005.693 | 9.047.691 | 88,5 |
| 16 | Losses | - | - | - |
| 17 | Reserves | 24.537.962 | 18.478.272 | 132,8 |
| 18 | Unrealised losses | - | - | - |
| 19 | Non-controlling shares | - | - | - |
| 20 | **TOTAL CAPITAL (from 13 to 19)** | **72.578.205** | **67.560.513** | 107,4 |
| | **TOTAL LIABILITIES (from 1 to 19)** | **419.908.961** | **401.165.980** | 104,7 |

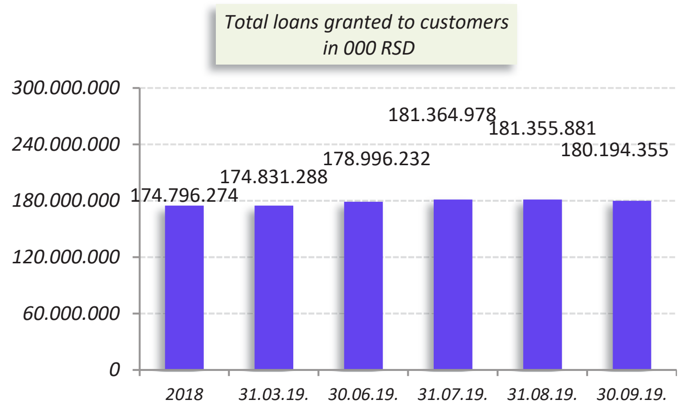
The Bank's total liabilities at the end of the third quarter of 2019 amount to RSD 347,330.8 million and account for 82.7% of total liabilities (December 31, 2018: 83.2%). At the same time, the total capital amounts to RSD 72,578.2 million and accounts for 17.3% of total liabilities (31.12.2018: 16.8%). Total liabilities increased by RSD 13,725.3 million or 4.1% compared to the end of 2018, while the Bank's total capital increased by RSD 5,017.7 million or 7.4%.

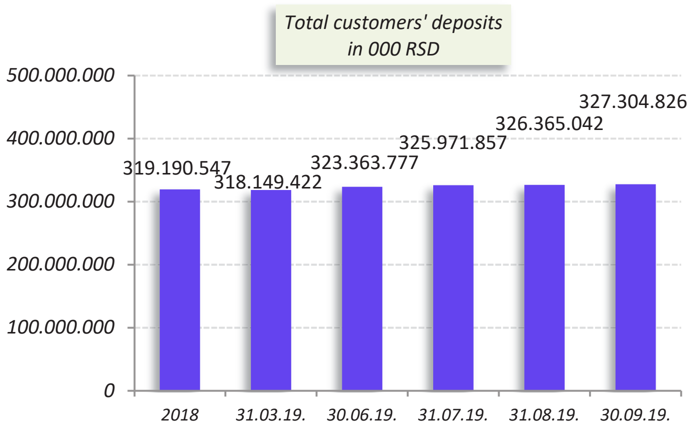
Deposits and other financial liabilities to customers increased in the reporting period by RSD 8,012.4 million or 2.5%, while deposits and other financial liabilities to banks decreased by RSD 938.0 million or 16.6% compared to the end of the previous year. Other liabilities increased by RSD 5,066.4 million or 55.9%. Provisions increased by RSD 692.6 million at the end of the third quarter of 2019 due to an increase in the provisioning liabilities.

During the third quarter of 2019, the reduction of foreign credit lines continued in the net equivalent of RSD 1,196.4 million, so that the balance of RSD equivalent of these liabilities as of 30.09.2019 amounted to RSD 1,621.6 million.

In the structure of balance sheet liabilities, total deposits and other financial liabilities of banks and customers amount to RSD 329,966.3 million, which represents 78.6% of total balance sheet liabilities, with an increase of RSD 7,074.4 million or 2.2% compared to the end of 2018.

### *6.3. Loans to Customers and Customer Deposits as at 30.09.2019*




The most significant category of balance sheet assets, loans to customers (excluding other loans and receivables), recorded an increase of RSD 5,398.1 million. At the end of the third quarter of 2019, loans to corporate clients reached RSD 78,797.9 million, an increase of 4.7% compared to the end of 2018. Retail loans reached RSD 97,579.4 million and increased by 6.0% compared to the end of 2018. Loans to banks and financial organizations reached RSD 3,817.1 million at the end of the third quarter of 2019, which is a decrease of 49.1%.

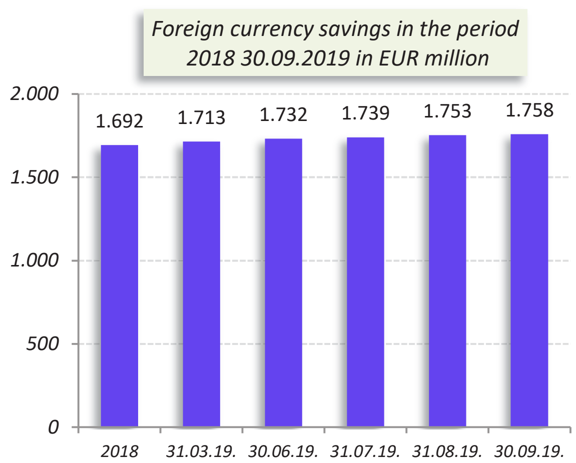
As of 30.09.2019, total loans to banks, other financial organizations and customers amounted to 180.194,4 million dinars and increased by 3.1% compared to the end of the previous year.

(In 000 RSD)

| NO. | POSITION | ACCOUNT BALANCE AS OF 30.09.2019. | ACCOUNT BALANCE AS OF 31.12.2018. | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(3:4)*100 |
| I | LOANS TO CUSTOMERS (1. +2. +3.) | 180.194.355 | 174.796.274 | 103,1 |
| 1. | Corporate | 78.797.919 | 75.264.373 | 104,7 |
| 2. | Retail | 97.579.371 | 92.033.605 | 106,0 |
| 3. | Banks and financial organizations | 3.817.065 | 7.498.296 | 50,9 |
| II | CUSTOMERS' DEPOSITS (1. +2. +3.) | 327.304.826 | 319.190.547 | 102,5 |
| 1. | Corporate | 44.152.190 | 49.879.580 | 88,5 |
| 2. | Retail | 274.359.959 | 260.296.411 | 105,4 |
| 3. | Banks and financial organizations | 8.792.677 | 9.014.556 | 97,5 |

NOTE:
-Disbursed loans, other loans and receivables excluded, received deposits, other liabilities and received funds in the form of credit lines excluded.

The change in deposits of banks, other financial organizations and customers (excluding other liabilities and credit lines) in the third quarter of 2019 is the result of an increase in retail deposits, decrease in corporate deposits and in deposits of banks and other financial organizations. Retail deposits increased by RSD 14,063.5 million or 5.4% in the observed period, corporate clients' deposits decreased by RSD 5,727.4 million or 11.5%, while deposits from banks and other financial organizations decreased in equivalent of RSD 221.9 million or 2.5%.




With the market reputation of a safe and stable bank, KB managed to increase its foreign currency savings deposits by EUR 65.5 million or 3.9% over the observed period.
Despite the decrease in debit interest rates, the customers' foreign currency savings increased during the three quarters of 2019 and reached the amount of EUR 1,757.6 million.
The confidence of depositors enabled the Bank to retain its leading position in the banking sector of the Republic of Serbia in terms of the foreign currency savings volume, image and visibility.

### 6.4. Off-Balance Sheet Items as of 30.09.2019

(In 000 RSD)

| NO. | POSITION | ACCOUNT BALANCE AS OF 30.09.2019 | ACCOUNT BALANCE AS OF 31.12.2018 | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(3:4)*100 |
| 1 | ACTIVITIES IN THE NAME AND FOR THE ACCOUNT OF THIRD PARTIES | 4.163.641 | 4.228.635 | 98,5 |
| 2 | ASSUMED FUTURE LIABILITIES | 52.718.594 | 44.069.612 | 119,6 |
| 3 | RECEIVED GUARANTEES FOR LIABILITIES | - | - | - |
| 4 | DERIVATIVES | - | 1.772.919 | - |
| 5 | OTHER OFF-BALANCE SHEET ITEMS | 426.764.899 | 407.748.884 | 104,7 |
| | **TOTAL** | **483.647.134** | **457.820.051** | 105,6 |

Total off-balance sheet assets of the Bank increased by RSD 25,827.1 million during the third quarter of 2019 compared to the end of 2018.

On 30.09.2019, total assumed future liabilities amount to RSD 52,718.6 million, which is an increase of RSD 8,649.0 million or 19.6% compared to the end of 2018, mainly due to the increase in irrevocable commitments for non-drawn loans and advances in dinars and foreign currency (an increase of 7,372.2 million dinars).

At the end of the third quarter of 2019, there are no derivatives in off-balance sheet records, unlike the end of 2018 when they amounted to RSD 1,772.9 million.

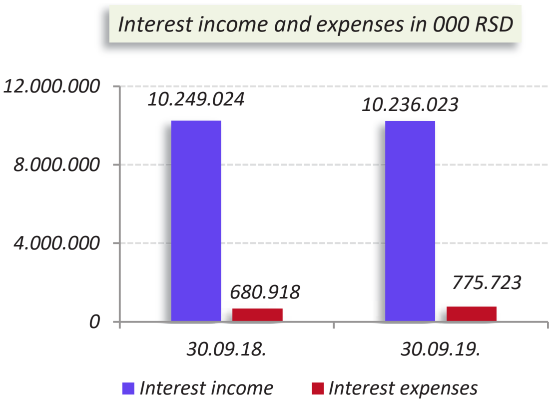
Other off-balance sheet items increased by RSD 19,016.0 million or 4.7% compared to the end of 2018.

## *7. INCOME STATEMENT FROM 01.01. TO 30.09.2019*

*(IN 000 RSD)*

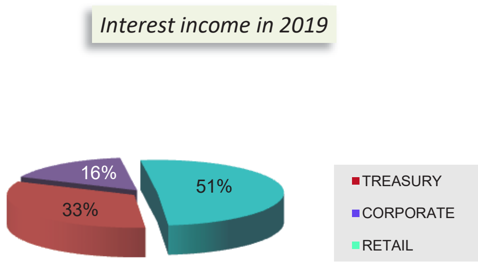
| NO. | POSITION | 30.09.2019 | 30.09.2018 | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=(3:4)*100 |
| | **INCOME AND EXPENSES FROM REGULAR OPERATIONS** | | | |
| 1.1. | Interest income | 10.236.023 | 10.249.024 | 99,9 |
| 1.2. | Interest expenses | -775.723 | -680.918 | 113,9 |
| **1.** | **Net interest income/expenses** | **9.460.300** | **9.568.106** | 98,9 |
| 2.1. | Fee and commission income | 5.287.178 | 5.287.750 | 100,0 |
| 2.2. | Fee and commission expenses | -1.269.926 | -1.424.110 | 89,2 |
| **2.** | **Net Fee and commission income/expenses** | **4.017.252** | **3.863.640** | 104,0 |
| 3. | Net profit/loss on change in fair value of FI | 67.834 | 83.578 | 81,2 |
| 4. | Net gains/losses on reclassification of FI | - | - | - |
| 5. | Net gains/losses from derecognition of financial instruments measured at fair value | 249.628 | 159.958 | 156,1 |
| 6. | Net gains/losses from hedging | - | - | - |
| 7. | Net exchange rate gains/losses and from the effects of agreed currency clause | 38.398 | -5.551 | - |
| 8. | Net income/expenses on impairment of financial assets not measured at fair value through income statement | 2.484.718 | 167.751 | - |
| 9. | Net gains/losses from derecognition of FI measured at amortized cost | -579.933 | 526.547 | - |
| 10. | Net gains/losses from derecognition of investments in associated companies and joint ventures | - | - | - |
| 11. | Other operating income | 112.641 | 114.267 | 98,6 |
| **12.** | **TOTAL NET OPERATING INCOME** | **15.850.838** | **14.478.296** | 109,5 |
| **13.** | **TOTAL NET OPERATING EXPENSES** | - | - | - |
| 14. | Salaries, salary compensation and other personal expenses | -3.259.962 | -3.287.044 | 99,2 |
| 15. | Depreciation expenses | -761.228 | -420.845 | 180,9 |
| 16. | Other income | 440.486 | 221.434 | 198,9 |
| 17. | Other expenses | -5.183.096 | -4.480.137 | 115,7 |
| **18.** | **PROFIT BEFORE TAX** | **7.087.038** | **6.511.704** | 108,8 |
| **19.** | **LOSSES BEFORE TAX** | - | - | - |
| 20. | Profit tax | - | - | - |
| 21. | Gains from deferred taxes | 293 | - | - |
| 22. | Losses on deferred taxes | -147 | - | - |
| **23.** | **PROFIT AFTER TAX** | **7.087.184** | **6.511.704** | 108,8 |
| **24.** | **LOSSES AFTER TAX** | - | - | - |
| 25. | Net profit from discontinued operations | - | - | - |
| 26. | Net loss from discontinued operations | - | - | - |
| **27.** | **RESULT FOR PERIOD - PROFIT** | **7.087.184** | **6.511.704** | 108,8 |
| **28.** | **RESULT OF PERIOD – LOSSES** | - | - | - |
| 29. | Profit belonging to a parent entity | - | - | - |
| 30. | Profit belonging to non-controlling owners | - | - | - |
| 31. | Losses belonging to a parent entity | - | - | - |
| 32. | Losses belonging to non-controlling owners | - | - | - |
| 33. | Earnings per share | - | - | - |
| 34. | Basic earnings per share | - | - | - |
| 35. | Diluted earnings per share | - | - | - |

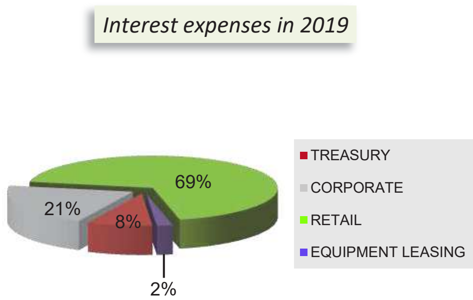
### *7.1. Interest Income and Expenses*



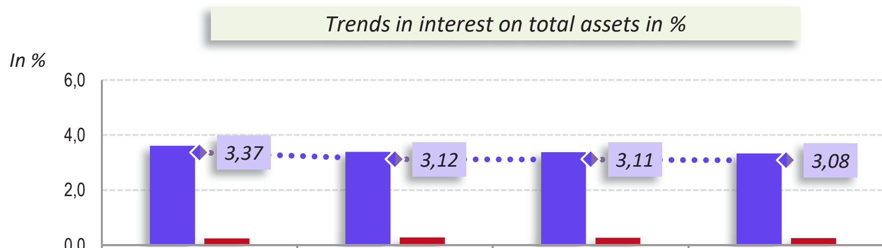

Compared to the same period last year, interest income decreased by RSD 13.0 million or 0.1%, while interest expense increased by RSD 94.8 million or 13.9%.

During the first three quarters of 2019, interest income amounted to RSD 9,460.3 million, which is a decrease of 1.1% compared to the same period last year.



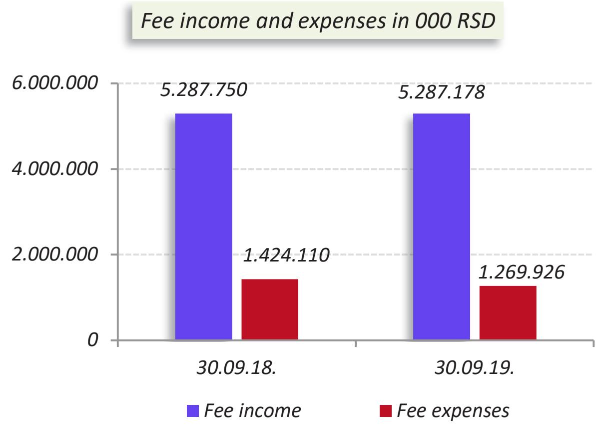

Within interest income, the largest share was generated by interest income from retail operations (RSD 5,194.3 million or 50.7%). In interest expenses interest applied to retail deposits also dominate (RSD 531.2 million or 68.5%), which is largely a result of interest expense on foreign currency savings.




| | 2018 | March | Jun | Sept |
|---|---|---|---|---|
| Average lending interest rate | 3,60 | 3,39 | 3,37 | 3,33 |
| Average debit interest rate | 0,24 | 0,28 | 0,26 | 0,25 |
| Average interest margin | 3,37 | 3,12 | 3,11 | 3,08 |

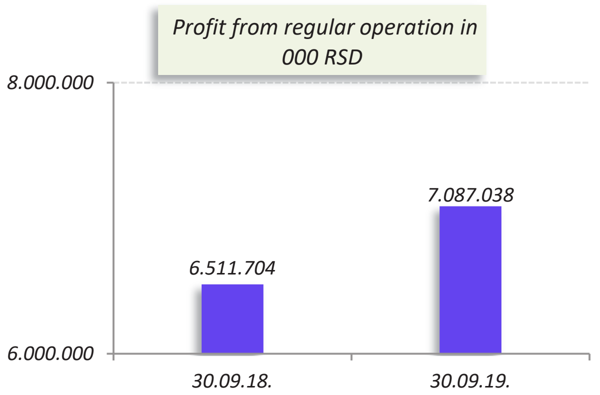
The average lending interest rate at the end of the third quarter of 2019 was 3.33% and the average debit interest rate was 0.25%, so the Bank's average interest rate margin in the third quarter of 2019 was 3.08%.

### 7.2. Fee Income and Expenses




During the first three quarters of 2019, fee and commission income for banking services decreased by RSD 0.6 million compared to the same period last year. At the same time, fee and commission expenses were reduced by RSD 154.2 million or 10.8%.
Profit generated from fees and commissions in the first three quarters of 2019 came to RSD 4,017.3 million and is RSD 153.6 million higher than in the same period of the previous year.

### 7.3. Profit Generated from Regular Operations




In the period from January 1 to September 30, 2019, pre-tax profit amounted to RSD 7,087.0 million, which represents an increase of RSD 575.3 million or 8.8% increase over the same period of the previous year..

The achieved operating profit provided the Bank with a return on total capital of 13.7%, i.e. a return on average assets of 2.3% in the third quarter of 2019.

### 7.4. Performance Ratios Prescribed by the Law on Banks

| NO. | POSITION | PRESCRIBED | 30.09.2019. | 2018. |
|---|---|---|---|---|
| 1. | CAPITAL ADEQUACY INDICATOR (CAPITAL / RISK ASSETS);<br>* REQUEST FOR COMBINED CAPITAL BUFFERS | MIN 8%+rccb* | 30,86% | 29,18% |
| 2. | RATIO OF INVESTMENT IN NON-FINANCIAL SECTOR ENTITIES AND FIXED ASSETS | MAX 60% | 13,25% | 13,18% |
| 3. | BANK'S LARGE EXPOSURE RATIO | MAX 400% | 27,31% | 39,77% |
| 4. | FX RISK RATIO | MAX 20% | 1,53% | 1,87% |
| 5. | LIQUIDITY RATIO (monthly, last day of the month) | MIN 0,8 | 4,41 | 3,86 |

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

A detailed account of the main risks and threats to which the Bank is exposed in the coming period is presented in the chapter Risk Management, Notes to the Financial Statements.

## 9. ALL IMPORTANT TRANSACTIONS WITH RELATED ENTITIES

On 30.09.2019, entities related to the Bank are:

1. Komercijalna banka a.d. Podgorica, Montenegro,
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina,
3. KomBank Invest a.d. Beograd,
4. One legal entity and a large number of natural persons, according to the provisions of Article 2 of the Law on Banks, in the part governing the term “persons associated with the bank “.

Total exposure to persons related to the Bank at the end of the third quarter of 2019 amounted to RSD 643.3 million, which represents 1.0% of capital compared to the regulatory capital of RSD 63,006.1 million (maximum value of total loans and advances to all persons related to the Bank amounts to 25% of capital according to the Law on Banks).

Most of the exposure to persons related to the Bank as of 30.09.2019 amounted to RSD 515.4 million, or 0.8% of the Bank's regulatory capital, and relates to investments in KomBank INVEST ad Beograd.

In accordance with Article 37 of the Law on Banks, the Bank did not grant loans to persons related to the Bank under better terms than the terms prescribed for lending to other persons, not related to the Bank.

## 10. DESCRIPTION OF ALL IMPORTANT EVENTS AFTER CLOSING THE FISCAL YEAR

After the end of 2018, and during the first three quarters of 2019, here we single out the following events as important: holding of the General Meeting of Bank’s Shareholders, repeated session of the General Meeting of Shareholders on 27.02.2019, regular session of the General Meeting of Shareholders held on 24.04.2019 and extraordinary sessions held on 23.07 and 30.09.2019.

Before the dates specified above, a regular session of the General Meeting of Bank’s Shareholders was scheduled to be held on 28.01.2019, but was not held because there was no required quorum for holding the session. The following agenda, or decision proposals, were anticipated for that meeting:

1. Decision Adopting Strategy and Business Plan of Komercijalna banka AD Beograd for Period 2019-2021;
2. Decision Correcting Technical Mistake in Decisions of the General Meeting of Bank’s Shareholders Nos. 19521/3c and 19521/3d dated 17.10.2018.

At the repeated session of the General Meeting of Bank’s Shareholders held on 27.02.2019 the following decisions were passed:

1. Decision Adopting Strategy and Business Plan of Komercijalna banka AD Beograd for Period 2019-2021.
2. Decision Amending Decision No. 19521/3c dated 17.10.2018 - Aleksei Germanovich.
3. Decision Amending Decision No. 19521/3d dated 17.10.2018 - Oleksandr Danyliuk.

New regular session of the General Meeting of Bank's Shareholders was held on 24.04.2019, when the following decisions were passed:

1. Decision Adopting the Annual Report on Operations of Komercijalna banka ad Beograd and Regular Financial Statements for 2018, with External Auditor's Opinion;
2. Decision Adopting the Annual Report on Operations of the Banking Group and Consolidated Financial Statements of Komercijalna banka ad Beograd Banking Group for 2018, with External Auditor's Opinion;
3. Decision Distributing 2018 Profit and Non-Distributed Profit from Earlier Years;
4. Decision Releasing from Duty and Appointing Chairman of the Board of Directors of Komercijalna banka AD Beograd;
5. Decision Releasing from Duty and Appointing a Member of the Board of Directors of Komercijalna banka AD Beograd;
6. Decision Appointing a Member of the Board of Directors of Komercijalna banka AD Beograd.

On 31.05.2019, the Ministry of Finance of the Republic of Serbia published a Public invitation for collection of expression of interest for participation in the tender process for sale of shares in Komercijalna banka a.d. Beograd. Privatization procedure anticipated for the Ministry of Finance to decide on the type of tender procedure after they receive all expressions of interest, according to the relevant Decree regulating this matter.

On 26.06.2019, a meeting of Tendering Commission was held in the Ministry of Finance formed in order to monitor the implementation of the sale of shares owned by the Republic of Serbia in Komercijalna banka a.d. Beograd, when they considered expressions of interest submitted by potential buyers. Members of the Commission confirmed that six expressions of interest were submitted timely, containing all documentation specified by the Public Invitation.

On 10.09.2019, a new meeting of the Tendering Commission was held, when submitted non-binding bids were opened, during the first stage of the tender procedure for sale of shares of Komercijalna banka a.d. Beograd. The Tendering Commission stated that four bids were submitted within the term provided for in the tendering documentation. The bids were opened and found complete, or containing all the elements anticipated by tendering documentation in the first stage.

Extraordinary session of the General Meeting of Bank's Shareholders was held on 23.07.2019, when the following decisions were passed:

1. Decision Releasing from Duty a Member of the Board of Directors of Komercijalna banka a.d. Beograd;
2. Decision Appointing a Member of the Board of Directors of Komercijalna banka a.d. Beograd;
3. Decision Issuing Positive Opinion on Conducting Other Public Function to a Member of the Board of Directors.

Extraordinary session of the General Meeting of Bank's Shareholders was held on 30.09.2019, when the following decision was passed:

1. Decision Appointing Bank's External Auditor for 2019.

Description of events after balance sheet was presented in the Notes to Financial Statements for the Third Quarter 2019.

### 11. MAIN DATA ON 2019 BUSINESS PLAN IMPLEMENTATION

The implementation of the Strategy and Business Plan, for the first nine months of 2019, took place within the following macroeconomic conditions of business, of which we separately point out:

- GDP growth of 2.9%, in the second quarter of 2019, compared to the same period last year (Serbian Statistical Office-SORS[8]), the original plan for the whole of 2019 is 3.5% growth (MFRS[9]),
- Stable movement of the dinar exchange rate around the level of 117 dinars for the 1 euro (planned exchange rate of the dinar against the euro at the end of the current year: 1 euro=119.00 dinars (KB), and on 30.09.2019 the rate was: 1 euro=117, 53 dinars),
- Year-on-year inflation rate in September 2019 is 1.1% and has a slight declining trend (at the end of 2018 it was 2.0% year-on-year); the inflation rate is currently below the 2019 target (3.0 %±1.5 p.p.).

In 2018, according to data from the Statistical Office of the Republic of Serbia, the GDP growth rate was 4.3%. The growth of economic activity was fuelled by the growth of the service sector, with strong agricultural growth. Extensive investment cycle has influenced the growth of construction activity, while the stable contribution of the total industry is largely determined by developments in the manufacturing industry[10]. On the expenditure side of GDP, consumption of households and investment were growth generator. GDP growth is expected to reach 3.5% in 2019[11]. A limiting factor for the growth of domestic GDP is the slowdown in global economic growth. Additional support for the global economy comes from the changing monetary policies of the world's leading central banks, the European Central Bank, and the United States Federal Reserve.
The total foreign trade in January-July 2019 amounted to EUR 23.8 billion [12] (goods worth EUR 10.1 billion were exported and goods worth EUR 13.7 billion imported) representing an increase of 7.2% and 10.4%, respectively, y.o.y. The most significant foreign trade partner in the same period is Germany, with a share of 12.8% in total foreign trade in goods. At the end of September 2019, the foreign exchange reserves of the National Bank of Serbia amounted to EUR 13.3[13] billion, up EUR 2.0 billion from end-2018.
In the period January-August 2019, fiscal surplus of RSD 37.2 billion was achieved at the general government level[14]. The public debt of the state at the end of August 2019 amounted to EUR 23.8 billion [15] or 51.9% of GDP.
In the first eight months of 2019, the net foreign direct investment (FDI) reached EUR 2.5 billion [16] which is an increase of 36.5% y.o.y. Projection of the total foreign direct investment for the whole of 2019 is around EUR2.8 billion[17].
National Bank of Serbia's activity in easing monetary policy, from mid-2013 until now, has led to a fall in interest rates on RSD loans in both corporate and retail segment. Interest rate on newly approved RSD loans in August 2019 was 5.1% for the corporate sector and 9.7% for retail segment[18]. Also, the costs of servicing existing loans have been reduced, which has led to an increase in available funds for other consumption and investments of retail and corporate.
Banks continued their upward trend in lending activity during the month of August 2019 by 10.7% y.o.y. owing to accelerated growth of loans to corporate segment 11.9% y.o.y., while retail loans slowed to 9.3%[19] y.o.y. In the continuation of the business year, bank lending activity is expected to continue to grow, given the expected, sustained 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.

8 Quarterly Gross Domestic Product in the Republic of Serbia, II quarter 2019, Press release, SORS
9 Fiscal strategy for 2019 with projections for 2020 and 2021, RS Ministry of Finance
10 Current macroeconomic trends, September 2019, RS Ministry of Finance
11 Fiscal strategy for 2019 with projections for 2020 and 2021, RS Ministry of Finance
12 Current macroeconomic trends, September 2019, RS Ministry of Finance
13 Current macroeconomic trends, May 2019, RS Ministry of Finance
14 Public release on October 7, 2019, RS Ministry of Finance
15 RS Public Debt, Table 5, 10/7/2019, RS Ministry of Finance
16 Macroeconomic trends in Serbia, October 2019, NBS
17 Macroeconomic trends in Serbia, October 2019, NBS
18 Macroeconomic trends in Serbia, October 2019, NBS
19 Macroeconomic trends in Serbia, October 2019, NBS

### *11.1. Planed and Achieved Balance Sheet Values for the Third Quarter of 2019*

*Achieved and planned positions of assets and liabilities in the balance sheet have the following values:*

*(In RSD million)*

| NO. | POSITION | Plan 31.12.2019. | Achieved 30.09.2019. | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=4/3*100 |
| | **ASSETS** | | | |
| 1. | Cash and cash equivalents | 60.170 | 65.845 | 109,4 |
| 2. | Securities | 119.563 | 134.317 | 112,3 |
| 3. | **Loans to customers** (3.1. +3.2. +3.3.) | **208.476** | **180.194** | 86,4 |
| 3.1. | Corporate | 99.695 | 78.798 | 79,0 |
| 3.2. | Retail | 103.527 | 97.579 | 94,3 |
| 3.3. | Banks and other financial organizations | 5.254 | 3.817 | 72,7 |
| 4. | Other assets | 28.519 | 39.552 | 138,7 |
| 5. | **TOTAL ASSETS** (1. +2. +3. +4.) | **416.729** | **419.909** | 100,8 |
| | **LIABILITIES** | | | |
| 1. | **Deposits** (1.1. +1.2. +1.3.) | **335.744** | **327.305** | 97,5 |
| 1.1. | Corporate | 55.374 | 44.152 | 79,7 |
| 1.2. | Retail | 272.759 | 274.360 | 100,6 |
| 1.3. | Banks and other financial organizations | 7.611 | 8.793 | 115,5 |
| 2. | Other liabilities | 10.156 | 20.026 | 197,2 |
| 3. | **Total liabilities** (1. +2.) | **345.900** | **347.331** | 100,4 |
| 4. | **Total capital** | **70.829** | **72.578** | 102,5 |
| 5. | **TOTAL LIABILITIES** (3. +4.) | **416.729** | **419.909** | 100,8 |

The total balance sheet assets of the Bank at the end of the third quarter of 2019 amounted to RSD 419,909.0 million and increased by RSD 3,180.1 million or 0.8% compared to the planned value for the end of the year.

Investments in securities at the end of the third quarter of 2019 are above the plan for the whole year by 12.3%, primarily due to lower lending activity than planned.

Loans to customers at the end of the third quarter of 2019 amount to RSD 180.194,4 million. In order to achieve the planned annual level of loans extended to customers, the Bank will have to invest funds in the amount of RSD 28,282.0 million, or to achieve a lending growth of 15.7% in the last quarter.

During the last quarter of 2019, it will be necessary to increase total deposits in the amount of RSD 8,439.5 million, in other words, deposit growth of 2.6%. Growth is expected in corporate deposits, with projected increase of RSD 11,221.6 million, or 25.4%. Retail deposits are at the level of the annual plan, while deposits of banks and financial organizations are above the annual planned value by 15.5%.

As of 30.09.2019, other liabilities are above the annual plan by 97.2%, so in the next quarter the expected decrease in this position of liabilities amounts to RSD 9.869,8 million.
The movement of the dinar exchange rate against the euro, appreciation (0.6%) at the end of the third quarter of the current year, has influenced the deviations from the planned values, to some extent.

## *11.2. Planned and Achieved Income Statement Values for Period 01.01.-30.09.2019*

(In RSD million)

| NO. | POSITION | Plan 01.01.-30.09.2019. | Achieved 01.01.-30.09.2019. | INDEX |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5=4/3*100 |
| 1.1. | Interest income | 10.571 | 10.236 | 96,8 |
| 1.2. | Interest expenses | -758 | -776 | 102,3 |
| 1. | **Interest rate gain** (1.1.-1.2.) | **9.813** | **9.460** | 96,4 |
| 2.1. | Fee and commission income | 5.569 | 5.287 | 94,9 |
| 2.2. | Fee and commission expenses | -1.171 | -1.270 | 108,5 |
| 2. | **Fee and commission gain** (2.1. -2.2.) | **4.399** | **4.017** | 91,3 |
| 3. | Net exchange rate gains/losses (currency clause) | 0 | 38 | - |
| 4. | Net other business income and expenses | 43 | -1.120 | - |
| 5. | Net income/expenses on impairment of financial assets not measured at fair value through income statement | -949 | 2.485 | - |
| 6. | Operating expenses | -8.306 | -7.794 | 93,8 |
| 7. | **PROFIT FROM REGULAR OPERATION** | **4.999** | **7.087** | 141,8 |

In the income statement positions, a significant deviation of planned and achieved values was recorded in net expenses due to impairment of financial assets that are not measured at fair value through profit or loss (net income amounted to RSD 2,484.7 million while net expenses of RSD 949.1 million were planned).

Interest rate gain is lower than planned by RSD 352.7 million, down 3.6%.
Gain generated from fees and commissions during the first three quarters of 2019 is lower than the plan by RSD 381.4 million.

Operating expenses in the observed period amount to RSD 7,793.7 million and are lower than planned by RSD 512.6 million or 6.2%, as a result of further rationalization of operating expenses.

The Bank made pre-tax profit in the amount of RSD 7,087.0 million, which is RSD 2,087.9 million or 41.8% above the planned value for the first nine months of 2019.

Signed on behalf of Komercijalna banka ad Beograd

Dragana Romandić
Д. Романдић
Director of Controlling and Planning Division

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

Miroslav Perić, PhD
Member of the Executive Board of the Bank

# BALANCE SHEET

on 30.09.2019.

(in RSD thousand)

| POSITION | ADP code | Amount | |
|---|---|---|---|
| | | Current year ammount | Previous year ammount |
| 1 | 2 | 3 | 4 |
| **ASSETS** | | | |
| ASSETS<br>Cash and assets held with central bank | 0001 | 65.844.960 | 63.595.710 |
| Pledged financial assets | 0002 | - | - |
| Receivables under derivatives | 0003 | - | 4.070 |
| Securities | 0004 | 134.317.485 | 133.177.598 |
| Loans and receivables from banks and other financial organisations | 0005 | 21.517.704 | 18.477.729 |
| Loans and receivables from clients | 0006 | 176.873.009 | 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 | 642.890 | 557.051 |
| Property, plant and equipment | 0012 | 6.478.517 | 5.619.078 |
| Investment property | 0013 | 1.867.532 | 1.896.347 |
| Current tax assets | 0014 | - | - |
| Deferred tax assets | 0015 | 1.429.824 | 840.967 |
| Non-current assets held for sale and discontinued operations | 0016 | 227.630 | 227.630 |
| Other assets | 0017 | 7.270.837 | 6.612.267 |
| **TOTAL ASSETS (from 0001 to 0017)** | 0018 | 419.908.961 | 401.165.980 |
| **LIABILITIES** | | | |
| LIABILITIES<br>Liabilities under derivatives | 0401 | - | - |
| Deposits and other liabilities to banks, other financial organisations and central bank | 0402 | 4.724.763 | 5.662.748 |
| Deposits and other financial liabilities to clients | 0403 | 325.241.489 | 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 | 2.346.247 | 1.653.663 |
| Liabilities under assets held for sale and discontinued operations | 0409 | - | - |
| Current tax liabilities | 0410 | - | - |
| Deferred tax liabilities | 0411 | 891.890 | - |
| Other liabilities | 0412 | 14.126.367 | 9.059.972 |
| **TOTAL LIABILITIES (from 0401 to 0412)** | 0413 | 347.330.756 | 333.605.467 |
| **CAPITAL** | | | |
| CAPITAL<br>Share capital | 0414 | 40.034.550 | 40.034.550 |
| Own shares | 0415 | - | - |
| Profit | 0416 | 8.005.693 | 9.047.691 |
| Loss | 0417 | - | - |
| Reserves | 0418 | 24.537.962 | 18.478.272 |
| Unrealized losses | 0419 | - | - |
| Non-controlling participation | 0420 | - | - |
| **TOTAL CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) ≥ 0** | 0421 | 72.578.205 | 67.560.513 |
| **TOTAL CAPITAL SHORTFALL (0414 - 0415 + 0416 - 0417 + 0418 - 0419) < 0** | 0422 | 0 | 0 |
| **TOTAL LIABILITIES (0413 + 0421 - 0422)** | 0423 | 419.908.961 | 401.165.980 |

КОМЕРЦИЈАЛНА БАНКА А.Д. БЕОГРАД 4

# INCOME STATEMENT

from 01.01.2019. to 30.09.2019.

(in RSD thousand)

| POSITION | ADP code | Amount | | | |
|---|---|---|---|---|---|
| | | Current year | | Previous year | |
| | | 01.07.-30.09. | 01.01.-30.09. | 01.07.-30.09. | 01.01.-30.09. |
| 1 | 2 | 3* | 4** | 5 | 6 |
| Interest income | 1001 | 3.395.104 | 10.236.023 | 3.561.840 | 10.249.024 |
| Interest expenses | 1002 | 241.936 | 775.723 | 223.614 | 680.918 |
| **Net interest gains (1001-1002)** | 1003 | 3.153.168 | 9.460.300 | 3.338.226 | 9.568.106 |
| **Net interest losses (1002-1001)** | 1004 | - | - | - | - |
| Income from fees and commissions | 1005 | 1.888.760 | 5.287.178 | 1.854.404 | 5.287.750 |
| Expenses on fees and commissions | 1006 | 476.058 | 1.269.926 | 543.782 | 1.424.110 |
| **Net gains from fees and commissions (1005 - 1006)** | 1007 | 1.412.702 | 4.017.252 | 1.310.622 | 3.863.640 |
| **Net losses on fees and commissions (1006 - 1005)** | 1008 | - | - | - | - |
| Net gains from changes in fair value of financial instruments | 1009 | 30.836 | 67.834 | 34.827 | 83.578 |
| 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 | 48.311 | 249.628 | 65.633 | 159.958 |
| 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 | 29.238 | 38.398 | - | - |
| Net exchange rate losses and losses on agreed currency clause | 1018 | - | - | 4.491 | 5.551 |
| Net income from reduction in impairment of financial assets not measured at fair value through income statement | 1019 | 846.766 | 2.484.718 | 202.939 | 167.751 |
| Net expenses on impairment of financial assets not measured at fair value through income statement | 1020 | - | - | - | - |
| Net gains from derecognition of the financial instruments measured at amortised cost | 1021 | 10.518 | - | 526.547 | 526.547 |
| Net losses on derecognition of the financial instruments measured at amortised cost | 1022 | - | 579.933 | - | - |
| 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 | 44.147 | 112.641 | 37.049 | 114.267 |
| **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 | 5.575.686 | 15.850.838 | 5.511.352 | 14.478.296 |
| **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 | 1.082.355 | 3.259.962 | 1.084.528 | 3.287.044 |
| Depreciation costs | 1029 | 264.271 | 761.228 | 136.753 | 420.845 |
| Other income | 1030 | 31.423 | 440.486 | 15.319 | 221.434 |
| Other expenses | 1031 | 1.512.091 | 5.183.096 | 1.414.435 | 4.480.137 |
| **PROFIT BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0** | 1032 | 2.748.392 | 7.087.038 | 2.890.955 | 6.511.704 |
| **LOSSES BEFORE TAX (1026 - 1027 - 1028 - 1029 - 1030 + 1031) < 0** | 1033 | - | - | - | - |
| Profit tax | 1034 | - | - | - | - |
| Gains from deferred taxes | 1035 | - | 293 | - | - |
| Losses on deferred taxes | 1036 | - | 147 | - | - |
| **PROFIT AFTER TAX (1032 - 1033 - 1034 + 1035 - 1036) ≥ 0** | 1037 | 2.748.392 | 7.087.184 | 2.890.955 | 6.511.704 |
| **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 | 2.748.392 | 7.087.184 | 2.890.955 | 6.511.704 |
| **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 | - | - | - | - |

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

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД * БЕОГРАД 4

## STATEMENT OF OTHER COMPREHENSIVE RESULT

from 01.01.2019. to 30.09.2019.

(in RSD thousand)

| POSITION | ADP code | Amount | | | |
|---|---|---|---|---|---|
| | | Current year | | Previous year | |
| | | 01.07.-30.09. | 01.01.-30.09. | 01.07.-30.09. | 01.01.-30.09. |
| 1 | 2 | 3* | 4** | 5 | 6 |
| **PROFIT FOR THE PERIOD** | 2001 | 2.748.391 | 7.087.183 | 2.890.955 | 6.511.704 |
| **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 | 65.437 | 524.176 | 168.023 | 386.155 |
| 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 | 885.679 | 1.497.022 | - | - |
| Negative effects of change in value of debt instruments measured at fair value through other comprehensive income | 2016 | - | - | 80.168 | 169.310 |
| 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 | - | - | 12.026 | 25.397 |
| Tax losses relating to other comprehensive income for the period | 2028 | 142.668 | 303.180 | 25.203 | 57.923 |
| **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 | **808.448** | **1.718.018** | **74.678** | **184.319** |
| **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 | **3.556.839** | **8.805.201** | **2.965.633** | **6.696.023** |
| **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.

КОМЕРЦИЈАЛНА БАНКА БЕОГРАД

## CASH FLOW STATEMENT

from 01.01.2019. to 30.09.2019.

(in RSD thousand)

| | POSITION | ADP code | Amount 01.01.-30.09.2019. | Amount 01.01-30.09.2018. |
|---|---|---|---|---|
| | 1 | 2 | 3* | 4 |
| A. | CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| I. | Cash inflow from operating activities (from 3002 to 3005) | 3001 | 17.532.481 | 17.289.775 |
| 1. | Interest | 3002 | 11.117.452 | 10.948.293 |
| 2. | Fees | 3003 | 5.349.601 | 5.326.771 |
| 3. | Other operating income | 3004 | 1.056.575 | 1.007.544 |
| 4. | Dividends and profit sharing | 3005 | 8.853 | 7.167 |
| II. | Cash outflow from operating activities (from 3007 to 3011) | 3006 | 9.055.780 | 9.088.171 |
| 5. | Interest | 3007 | 597.571 | 621.580 |
| 6. | Fees | 3008 | 1.230.824 | 1.424.720 |
| 7. | Gross salaries, salary compensations and other personal expenses | 3009 | 2.914.569 | 2.917.141 |
| 8. | Taxes, contributions and other duties charged to income | 3010 | 636.150 | 607.309 |
| 9. | Other operating expenses | 3011 | 3.676.666 | 3.517.421 |
| III. | Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities (3001 - 3006) | 3012 | 8.476.701 | 8.201.604 |
| 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 | 8.025.551 | 18.053.275 |
| 10. | Decrease in loans and receivables from banks, other financial organisations, central bank and clients | 3015 | - | - |
| 11. | Decrease in receivables under securities and other financial assets not intended for investment | 3016 | - | - |
| 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 | 8.025.551 | 18.053.275 |
| 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 | 12.367.426 | 7.045.417 |
| 16. | Increase in loans and receivables from banks, other financial organisations, central bank and clients | 3022 | 11.010.757 | 2.164.034 |
| 17. | Increase in receivables under securities and other financial assets not intended for investment | 3023 | 1.356.669 | 4.875.698 |
| 18. | Increase in receivables under hedging derivatives and change in fair value of hedged items | 3024 | - | - |
| 19. | Decrease in deposits and other financial liabilities to banks, other financial organisations, central banks and clients | 3025 | - | - |
| 20. | Decrease in other financial liabilities | 3026 | - | 5.685 |
| 21. | Decrease in liabilities under hedging derivatives and change in fair value of hedged items | 3027 | - | - |
| VII. | Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021) | 3028 | 4.134.826 | 19.209.462 |
| 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 | 4.134.826 | 19.209.462 |
| 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 | 40.891.980 | 36.014.312 |
| 1. | Investment in investment securities | 3035 | 40.891.980 | 36.014.312 |
| 2. | Sale of investments into subsidiaries and associated companies and joint ventures | 3036 | - | - |
| 3. | Sale of intangible investments, property, plant and equipment | 3037 | - | - |
| 4. | Sale of investment property | 3038 | - | - |
| 5. | Other inflow from investing activities | 3039 | - | - |
| II. | Cash outflow from investing activities (from 3041 to 3045) | 3040 | 40.109.758 | 45.995.414 |
| 6. | Investment into investment securities | 3041 | 39.694.278 | 45.740.984 |
| 7. | Purchase of investments into subsidiaries and associated companies and joint ventures | 3042 | - | - |
| 8. | Purchase of intangible investments, property, plant and equipment | 3043 | 415.480 | 251.122 |
| 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 | 782.222 | - |
| IV. | Net cash outflow from investing activities (3040 - 3034) | 3047 | - | 9.981.102 |
| C. | CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| I. | Cash inflow from financing activities (from 3049 to 3054) | 3048 | 67.887.450 | 65.109.174 |
| 1. | Capital increase | 3049 | - | - |
| 2. | Subordinated liabilities | 3050 | - | - |
| 3. | Loans taken | 3051 | 67.887.450 | 65.109.174 |
| 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 | 68.999.665 | 69.188.672 |
| 7. | Purchase of own shares | 3056 | - | - |
| 8. | Subordinated liabilities | 3057 | - | - |
| 9. | Loans taken | 3058 | 68.714.927 | 69.188.672 |
| 10. | Issuance of securities | 3059 | - | - |
| 11. | Other outflow from financing activities | 3060 | 284.738 | - |
| III. | Net cash inflow from financing activities (3048 - 3055) | 3061 | - | - |
| IV. | Net cash outflow from financing activities (3055 - 3048) | 3062 | 1.112.215 | 4.079.498 |
| D. | TOTAL CASH INFLOWS (3001 + 3014 + 3034 + 3048) | 3063 | 134.337.462 | 136.466.536 |
| E. | TOTAL CASH OUTFLOWS (3006 + 3021 + 3030 + 3031 + 3040 + 3055) | 3064 | 130.532.629 | 131.317.674 |
| F. | NET INCREASE IN CASH (3063 - 3064) | 3065 | 3.804.833 | 5.148.862 |
| 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 | 403.916 | 68.075 |
| J. | EXCHANGE RATE LOSSES | 3069 | 278.699 | - |
| K. | CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069) | 3070 | 44.305.798 | 31.531.835 |

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

## STATEMENT OF CHANGES IN EQUITY

from 01.01.2019. to 30.09.2019.

(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 | 47.861 | 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 | 23.509 | 4217 | | 4258 | | | | | |
| Other – decrease | 4013 | | 4045 | | 4077 | | 4109 | | | | | | 4180 | 398.640 | 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 | 6.073.047 | 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 | 1.718.018 | 4162 | | | | x | | 4269 | | | | | |
| Total negative other comprehensive income for the period | | | | | | | | | 4145 | 0 | 4163 | | | | x | | 4270 | | | | | |
| Profit for the current year | | | | | | | | | | | | | 4190 | 7.067.184 | 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 September 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 | 5.972.755 | 4164 | 0 | 4202 | 8.005.693 | 4240 | 0 | 4284 | | 4290 | 72.578.205 | 4296 | |

# NOTES

## TO FINANCIAL STATEMENTS FOR THE THIRD QUARTER 2019

Belgrade, November 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 30.09.2019, 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 September 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 September 2019 the Bank had 2,761 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.

By implemented IFRS 9 standard, legal regulations of the NBS have been amended, which complied the banks to apply to new forms of financial statements in effect as of January the 1st 2018. These changes were applied when preparing and presenting the financial statements of the Bank as of January the 1st 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 Group as the lessee, should **combine two or more contracts** concluded at the same time or close in time with the same contractual party (or persons related to the contractual party), and should also calculate/anticipate the contracts as one contract, if the contracts are negotiated as a package with the general commercial objective that cannot be understood without their mutual review, the amount of fee that is paid in one contract depends on price or execution of the other contract or the right to use the underlying assets that are transferred by contracts (or some rights to use the underlying asset that are transferred in each of the contracts) make for unique component of the lease.

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

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

- Present value of leasing 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 valued 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 September 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), applied from 1st January 2018 and can be seen in more detail from the following overview:

In thousand RSD

| | 30.09.2019. | | 31.12.2018. | |
|---|---|---|---|---|
| ASSETS | Amount | % | Amount | % |
| Cash and cash funds held with the central bank | 65,844,960 | 15.68 | 63,595,710 | 15.85 |
| Receivables under derivatives | - | - | 4,070 | - |
| Securities | 134,317,485 | 31.99 | 133,177,598 | 33.20 |
| Loans and receivables due from banks and other financial organizations | 21,517,704 | 5.12 | 18,477,729 | 4.61 |
| Loans and receivables from customers | 176,873,009 | 42.12 | 167,545,674 | 41.76 |
| Investments in subsidiaries | 3,438,573 | 0.82 | 2,611,859 | 0.65 |
| Intangible assets | 642,890 | 0.15 | 557,051 | 0.14 |
| Property, plant and equipment | 6,478,517 | 1.54 | 5,619,078 | 1.40 |
| Investment property | 1,867,532 | 0.45 | 1,896,347 | 0.47 |
| Deferred tax assets | 1,429,824 | 0.34 | 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 | 7,270,837 | 1.73 | 6,612,267 | 1.65 |
| **TOTAL ASSETS** | **419,908,961** | **100.00** | **401,165,980** | **100.00** |

| LIABILITIES | Amount | % | Amount | % |
|---|---|---|---|---|
| Deposits and other fin. liabilities to banks, other fin. organisations and the Central Bank | 4,724,763 | 1.13 | 5,662,748 | 1.41 |
| Deposits and other fin. liabilities to other customers | 325,241,489 | 77.46 | 317,229,084 | 79.08 |
| Provisions | 2,346,247 | 0.56 | 1,653,663 | 0.41 |
| Deferred tax liabilities | 891,890 | 0.21 | - | - |
| Other liabilities | 14,126,367 | 3.36 | 9,059,972 | 2.26 |
| **Total liabilities** | **347,330,756** | **82.72** | 333,605,467 | 83.16 |
| **Capital** | | | | |
| Share capital | 40,034,550 | 9.53 | 40,034,550 | 9.98 |
| Profit | 8,005,693 | 1.91 | 9,047,691 | 2.25 |
| Reserves | 24,537,962 | 5.84 | 18,478,272 | 4.61 |
| **Total capital** | **72,578,205** | **17.28** | **67,560,513** | **16.84** |
| **TOTAL LIABILITIES** | **419,908,961** | **100.00** | **401,165,980** | **100.00** |

## INCOME STATEMENT

Profit and loss structure for 2019 as follows:

In thousand RSD

| | 30.09.2019. | 30.09.2018. |
|---|---|---|
| INCOME | Total | Total |
| Interest income | 10,236,023 | 10,249,024 |
| Interest expenses | (775,723) | (680,918) |
| **Net interest income** | **9,460,300** | **9,568,106** |
| Fee and commission income | 5,287,178 | 5,287,750 |
| Fee and commission expenses | (1,269,926) | (1,424,110) |
| **Net fee and commission income** | **4,017,252** | **3,863,640** |
| Net gain from changes in fair value of financial instruments | 67,834 | 83,578 |
| Net gain based on derecognition of financial instruments that are measured at fair value | 249,628 | 159,958 |
| Net income from exchange differentials and the effects of agreed currency clause | 38,398 | - |
| Net expense from exchange differentials and the effects of agreed currency clause | - | (5,551) |
| Net income from reduced impairment of financial assets that are not measured at fair value through P&L | 2,484,718 | 167,751 |
| Net expense from impairment of financial assets that are not measured at fair value through P&L | - | 526,547 |
| Net loss from derecognition of financial instruments that are valued at amortised cost | (579,933) | - |
| Other operating income | 112,641 | 114,267 |
| **Total net operating income** | **15,850,838** | **14,478,296** |
| Cost of salaries, allowances and other personnel expenses | (3,259,962) | (3,287,044) |
| Depreciation cost | (761,228) | (420,845) |
| Other income | 440,486 | 221,434 |
| Other expenses | (5,183,096) | (4,480,137) |

| | | |
|---|---|---|
| **Profit /loss before tax** | **7,087,038** | **6,511,704** |
| **Profit from deferred tax** | **293** | **-** |
| **Loss from deferred tax** | **147** | **-** |
| **Result for the period (profit /loss)** | **7,087,184** | **6,511,704** |

CASH FLOW STATEMENT

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

In thousand RSD

| Item | 30.09.2019. Total | 30.09.2018. Total |
|---|---|---|
| **Cash inflows from operating activities** | **17,532,481** | **17,289,775** |
| Inflow from interest | 11,117,452 | 10,948,293 |
| Inflow from fees | 5,349,601 | 5,326,771 |
| Inflow from other operating activities | 1,056,575 | 1,007,544 |
| Inflow from dividends and share in profit | 8,853 | 7,167 |
| **Cash outflows from operating activities** | **(9,055,780)** | **(9,088,171)** |
| Outflow from interest payments | (597,571) | (621,580) |
| Outflow from fee payments | (1,230,824) | (1,424,720) |
| Outflows from payments for gross salaries, allowances and other personnel expenses | (2,914,569) | (2,917,141) |
| Outflow from taxes, contributions and other duties charged to expense | (636,150) | (607,309) |
| Outflows for other operating expenses | (3,676,666) | (3,517,421) |
| **Net cash inflow from operating activities before increase or decrease in financial assets and financial liabilities** | **8,476,701** | **8,201,604** |
| **Decrease in financial assets and increase in financial liabilities** | **(8,025,551)** | **(18,053,275)** |
| Decrease in loans and other receivables from banks and other financial organizations, central bank and customers | | |
| Increase in deposits and other financial liabilities towards banks and other financial organizations, central bank and customers | (8,025,551) | (18,053,275) |
| **Increase in financial assets and decrease in financial liabilities** | **12,367,426** | **7,045,417** |
| Increase in loans and receivables from banks, other financial organisations, central bank and customers | 11,010,757 | 2,164,034 |
| Increase in receivables based on securities and other financial assets not intended for investment | 1,356,669 | 4,875,698 |
| Decrease in other financial liabilities | - | 5,685 |

| | 30.09.2019. | 30.09.2018. |
|---|---|---|
| Item | Total | Total |
| **Net inflow of cash from operating activities before profit tax** | **4,134,826** | **19,209,462** |
| **Net outflow of cash from operating activities before profit tax** | **-** | **-** |
| **Net inflow of cash from operating activities** | **4,134,826** | **19,209,462** |
| **Net outflow of cash from operating activities** | **-** | **-** |
| **Cash inflow from investment activities** | **40,891,980** | **36,014,312** |
| Inflow from investment securities | 40,891,980 | 36,014,312 |
| **Cash outflow from investment activities** | **(40,109,758)** | **(45,995,414)** |
| Outflow from investing in investment securities | (39,694,278) | (45,740,984) |
| Outflow for purchase of intangible assets, property, plants and equipment | (415,480) | (251,122) |
| Other outflows from investment activities | - | (3,308) |
| **Net inflow of cash from investment activities** | **782,222** | **-** |
| **Net outflow of cash from investment activities** | **-** | **(9,981,102)** |
| **Cash inflow from financing activity** | **67,887,450** | **65,109,174** |
| Inflow from borrowings | 67,887,450 | 65,109,174 |
| **Cash outflow from financing activity** | **(68,999,665)** | **(69,188,672)** |
| Outflow of cash from borrowings | (68,714,927) | (69,188,672) |
| Other outflows from financing activity | (284,738) | - |
| **Net outflow of cash from financing activity** | **(1,112,215)** | **(4,076,498)** |
| **Total cash inflow** | **134,337,462** | **136,466,536** |
| **Total cash outflow** | **(130,532,629)** | **(131,317,674)** |
| **Net increase in cash** | **3,804,833** | **5,148,862** |
| **Net decrease in cash** | **-** | **-** |
| **Cash and cash equivalents at the start of the year** | **40,375,748** | **26,314,898** |
| Exchange rate gains | 403,916 | 68,075 |
| Exchange rate loss | (278,699) | - |
| **End of period cash and cash equivalents** | **44,305,798** | **31,531,835** |

# INCOME STATEMENT

## 3.1. Interest Income and Expenses

Interest income and expenses, including penalty 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 – September 2019 amounts to RSD 9,460,300 thousand and is lower by RSD 107,806 thousand or 1.13% compared to the same period last year.

Realized net interest income is lower compared to the planned values from the Business plan for the first nine months of 2019 by RSD 352,707 thousand.

### 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 – September 2019 amount to RSD 4,017,252 thousand and are higher compared to the same period 2018 by 3.98% or RSD 153,612 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 67,834 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 equity 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 equity 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 249,628 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. Conversion 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 converted 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 converted 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 in the conversion of balance sheet items denominated 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 – September 2019 amounts to RSD 38,398 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 impairment 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 is terminated for the previously recognised loss due to impairment.

In period January– September 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 2,484,718 thousand unlike the same period 2018 when on the same basis it recorded net expense in amount of RSD 167,751 thousand.

Net positive effect of group and individual calculation of impairment provisions for loans, other receivables and off-balance sheet items in the period January through September 2019 amounted to RSD 1,567,655 thousand.

The remaining effect of net 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 written off in the amount of RSD 955,956 thousand from February 2019, which the Bank achieved through execution of contracts 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 – September 2019 net losses are recorded on the basis of derecognition of financial instruments that are measured at amortised cost in amount of RSD 579,933 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 112,641 thousand the most considerable share of 90.46% has income from operating activities (the same period last year 92.30%), which is largely relate to income realised from lease of property amounting to RSD 50,825 thousand. Other operating income are realized from reimbursement of expenses based on: court and utility costs, income from collected expenses of business 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 10,751 thousand are shown as income from dividends at the moment of their collection. Out of total amount of collected dividends, RSD 5,911 thousand relate to received dividend from VISA Inc. USA, while RSD 417 thousand relate to dividend received from MasterCard USA. In the third quarter of 2019 income from dividend arising from investments in equity shares of Dunav Company amounted to RSD 4,423 thousand.

### 3.8. Costs of Wages, Allowances and other Personnel Expenses

Costs of wages, allowances and other personnel expenses in the amount of RSD 3,259,962 thousand are lower by RSD 27,082 thousand or 0.82% compared to the same period last year.

### 3.9. Depreciation Costs

Depreciation costs amounting to RSD 761,228 thousand are higher than in period January – September 2018 by RSD 340,383 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 300,281 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 440,486 thousand the most significant share of 64.44% have the income from the release of unused provisions for court disputes in the amount of RSD 283,856 thousand (reference note 3.19.), as well as other income with share of 35.56% or RSD 156,630 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 144,265 thousand, which accounts for 32.75% of other income.

### 3.11. Other Expenses

Other expenses are stated in the amount of RSD 5,183,096 thousand and are higher compared to the same period last year by RSD 702,959 thousand or 15.69%. Other expenses comprise of:

a) Operating expenses amounting to RSD 3,772,544 thousand,
b) Cost of provisions for court proceedings liabilities amounting to RSD 1,072,092 thousand,
c) Other expenses amounting to RSD 337,588 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 3,772,544 thousand, as follows:*

immaterial costs totalling RSD 1,886,546 thousand with the highest individual item being the cost of deposit insurance in the amount of RSD 1,302,178 thousand. The structure of other expenses in the operating expenses item consists of the following: costs for managing and maintaining the ATM and POS network and other payment cards related equipment in the amount of RSD 292,207 thousand, property insurance expenses in the amount of RSD 192,047 thousand, costs of transportation to and from work of RSD 68,867 thousand, costs of money transport in the amount of RSD 62,997 thousand, costs of lawyer services amounting to RSD 55,254 thousand, cost of production services amounting to RSD 996,712 thousand, cost of material in amount of RSD 223,322 thousand, tax costs amounting to RSD 114,070 thousand, contribution costs amounting to RSD 532,578 thousand and other expenses in amount of RSD 19,317 thousand.

Operating expenses of the current period are lower compared to the same period last year by RSD 300,557 thousand (mostly resulting from the application of IFRS 16 and method of recognizing long term lease – reference Note 2.2).

*b) Costs of provisions* for court disputes in the amount of RSD 1,072,092 thousand relate to increase of provisions for Bank's court disputes in 2019 (reference note 3.19.) and

*c) Other expenses in the amount of RSD 337,588 thousand.*

Out of total amount of other expenses for period January – September 2019 in amount *of* RSD*337,588* thousand the largest part relates to costs of the insurance policy for receivables of the loan users in the amount of RSD 160,976 thousand. Other expenses on this basis in the same period 2018 amounted to RSD 126,117 thousand.

Compared to the same period 2018, other expenses are higher by RSD 142,727 thousand, primarily as a result of increase in other expenses (which increased by RSD 79,354 thousand) of cost of insurance for receivables of the loan users (increase by RSD 34,798 thousand), cost of insurance of the user of product – account sets (increase by RSD 12,346 thousand) and cost of expenses as per lost court proceedings (increase by RSD 12,575 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 30.09.2019 amounts to RSD 419,908,961 thousand, which in comparison to 31.12.2018 represents an increase by RSD 18,742,981 thousand or 4.67%.

## ASSETS

The dominant share in the total assets of the Bank is that of the loans and deposits to customers and banks of 47.24% (2018: 46.37%), securities with share of 31.99% (2018: 33.20%), cash and funds with central bank with share of 15.68% (2018: 15.85%), other assets with share of 1.73% (2018: 1.65%), property, plant and equipment with share of 1.54% (2018: 1.40%) and investment in subsidiaries 0.82% (2018: 0.65%).

## 3.13. Cash and Funds with the Central Bank

Cash and balances with the central bank as at 30.09.2019 amount to RSD 65,844,960 thousand, and account for 15.68% of Bank's total assets (15.85% as at 31.12.2018). Compared to 31.12.2018 the position is higher by RSD 2, 249, 250 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 134,317,485 thousand represent a percentage of share of 31.99% 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 6,324,138 thousand and securities measured at fair value through other comprehensive income in the amount of RSD 127,993,347 thousand.

Increase of investing in securities is realised compared to 2018 by RSD 1,139,887 thousand, or 0.86%. Realised grow of RSD 1,139,887 thousand is a result of increase of securities that are measured at fair value through P&L by RSD 1,514,328 thousand on one hand and decrease of securities that are measured at fair value through other comprehensive income by RSD 374,441 thousand, on the other hand.

The largest share in the securities structure in RSD is that of the RS bonds (99.18%) and investment units of KomBank Money Fund, Beograd (0.82%). Regarding securities in foreign currency, these are made up of RS bonds (96.46%) and bonds of foreign banks and states (3.54%).

## 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 30.09.2019 the loans and receivables from banks and other financial organisations amount to RSD 21,517,704 thousand with percentage of share of 5.12% of total assets (2018: RSD 18,477,729 thousand) and are higher by RSD 3,039,975 thousand. Increase compared to 31.12.2018 is mainly a result of increase of balance on custody account of the NBS by RSD denominated repurchase transactions.

Loans and receivables from customers as at 30.09.2019 amount to RSD 176,873,009 thousand and with percentage of share of 42.12% of total assets (2018: RSD 167,545,674 thousand) have dominant share in structure of assets. Total loans to customers are higher by 5.57% compared to 2018, or RSD 9,327,335 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, as well as net effects of calculation and recognition of impairment provisions.

In period January – September 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 1,278,122 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 0.82% 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 30.09.2019 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 30.09.2019 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 4.27% of total assets, of which the highest percentage relates to other assets in amount of 1.73%, property, plant and equipment in amount of 1.54% and investment property amounting to 0.45%.

Equity investments in banks, foreign and local legal entities as of 30.09.2019 amount to RSD 1,824,564 thousand measured at fair value through other comprehensive income. The largest amount refers to the share in the equity of foreign entities of RSD 1,734,669 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 30.09.2019 deferred tax assets stated in balance sheet assets amount to RSD 1,429,824 thousand, and deferred tax liabilities stated as liabilities in the balance sheet amounted to RSD 891,890 thousand.

Deferred tax assets as of 30.09.2019 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 295,227 thousand are tax assets for temporary non-recognised expenses from property impairment.

In the third quarter of 2019 there occurred a change in deferred taxes compared to 31.12.2018 on the basis of change in value of securities while the change on transferred tax losses was recorded in the second quarter, all of which was stated within decrease of the position of deferred tax assets by RSD 2,962 thousand and an increase of the position of deferred tax liabilities in amount of RSD 300,071 thousand.

## LIABILITIES

In period January – September 2019 in the structure of liabilities deposits and other financial liabilities to banks and customers still have a dominant share with total percentage of 78.59% (2018: 80.49%) in total liabilities. The share of capital in total liabilities stands at 17.28% (2018: 16.84%).

Other positions make for 4.13% of total liabilities which mainly refers to the other liabilities with the percentage of 3.36%.

### 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 325,241,489 thousand, which make for 77.46% 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 4,724,763 thousand with share of 1.13% (2018: 1.41%).

Total deposits to customers, banks, other financial organizations and central bank amounted to RSD 329,966,252 thousand and compared to 2018 they are higher by RSD 7,074,420 thousand: transaction deposits are higher by RSD 765,781 thousand, while other deposits recorded a growth amounting to RSD 6,308,639 thousand. The most significant individual growth on the position savings deposits in foreign currency.

Net increase in transaction deposits was the result of reduction in dinar transaction deposits amounting to RSD 1,284,393 thousand, while the transaction deposits in foreign currency recorded a growth by RSD 2,050,174 thousand compared to 31.12.2018. In structure of transaction deposits still prevailing are the deposits in local currency with a share of 62.48%, while the remaining 37.52% relate to deposits in foreign currency.

In case of other deposits, deposits in foreign currency are dominant with a share of 92.09% while dinar deposits have a share of 7.91%. Foreign currency savings increased by approximately EUR 65,50 million.

*Borrowings*

Borrowings, as part of the deposit and other liabilities towards banks and other customers position, amounted to RSD 1,621,634 thousand with a percentage of shares in the total liabilities of 0.39% and they refer to received credit lines in foreign currency. The total position is lower in relation to 2018 by RSD 1,199,355 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 213 thousand

i.e. regular repayment of credit lines:

- EBRD in amount of EUR 6,000 thousand
- EIB in amount of EUR 3,239 thousand and
- Government of the Republic of Italy in the amount of EUR 565 thousand

As of 30.09.2019 the most considerable share in the structure of received loans relate to obligation towards the:

- European Investment Bank (EIB) with percentage of share of 96.46%

Other credit lines have a share of 3.54% 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 2,346,247 thousand consist of provisions for:

- Covering of potential liabilities (litigations) in the amount of RSD 1,674,595 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 193,096 thousand.

In the observed period, compared to 2018 there was an increase in provisions amounting to RSD 692,584 thousand, as a result of net increase of provisions on the basis of court disputes by RSD 774,443 thousand, on one hand and reduction of provisions for losses on off-balance sheet assets in amount of RSD 81,859 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 three thousand four hundred fifty six cases as at 30.09.2019 the total provisions amount to RSD 1,674,595 thousand.

Compared to 31.12.2018 there was a change in the total level of provisions in the net amount of RSD 774,442 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 788,236 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 13,794 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 1,918 new cases.

## 3.20. Other liabilities

Other liabilities amount to RSD 14,126,367 thousand and compared to 2018 they are higher by RSD 5,066,395 thousand. The percentage of share of other liabilities in total liabilities is 3.36% (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 in calculation of foreign currency amounting to RSD 1,976,454 thousand, liabilities based on leasing in amount of RSD 1,076,481 thousand, liabilities for net salaries charged to expenses in the amount of RSD 252,033 thousand and liabilities from closed accounts of customers amounting to RSD 101,475 thousand.

Increase in other liabilities in amount of RSD 5,066,395 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 1,076,481 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 30.09.2019 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 | 2,452,211 | 2,006,662 |
| Profit/loss from changes in the value of debt and equity instruments | 3,397,965 | 2,125,496 |
| Actuarial gains | 122,579 | 122,579 |
| Reserves | 24,537,962 | 18,478,272 |
| Accumulated profit | 918,509 | 902,509 |
| Profit | 7,087,184 | 8,145,182 |
| **Balance as at date** | **72,578,205** | **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 September 2019, calculated on the basis of the financial statements, equals 30.86% 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 30.09.2019 the pecuniary part of capital is above the prescribed level.

The structure of the share capital – ordinary shares as at 30.09.2019 is as follows:

| Name of shareholder | % of share |
|---|---|
| Republic of Serbia | 48.65 |
| EBRD, LONDON | 24.43 |
| IFC CAPITALIZATION FUND LP | 10.15 |
| Jugobanka AD Beograd in bankruptcy | 1.91 |
| Dunav Insurance Company | 1.73 |
| BDD M&V INVESTMENTS AD BEOGRAD | 1.62 |
| SOCIETE GENER. BANKA SRBIJA- Custody account | 1.23 |
| EAST CAPITAL (lux) BALKAN FUND | 1.21 |
| GLOBAL MACRO CAPITAL OPPORTUNITIES | 0.78 |
| GLOBAL MACRO ABSOLUTE RETURN A | 0.74 |
| STANKOM CO DOO BEOGRAD | 0.70 |
| GLOBAL MACRO PORTFOLIO | 0.47 |
| FRONT. MARK. OPPORTUN. MASTER | 0.41 |
| DEKA INZINJERING | 0.36 |
| Others | 5.61 |
| | 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 30.09.2019

### RECEIVABLES

In thousand RSD

| Subsidiaries | Placements and loans | Interest and fees | Other assets | Impairment provision | Net | Off-Balance | Total |
|---|---|---|---|---|---|---|---|
| 1. Kom.banka AD Podgorica | 6,651 | 885 | - | 93 | 7,443 | 523,001 | 530,444 |
| 2. Kom. banka AD Banja Luka | 108,933 | 24 | 148 | 1,321 | 107,784 | 1,997,981 | 2,105,765 |
| 3. Kombank INVEST | - | 198 | - | - | 198 | 200 | 398 |
| **TOTAL:** | **115,584** | **1,107** | **148** | **1,414** | **115,425** | **2,521,182** | **2,636,607** |

### LIABILITIES

In thousand RSD

| Subsidiaries | Deposits and loans | Interest and fees | Other liabilities | Total |
|---|---|---|---|---|
| 1. Kom.banka AD Podgorica | 647,035 | - | 1,649 | 648,684 |
| 2. Kom.banka AD Banja Luka | 204,218 | - | - | 204,218 |
| 3. Kombank INVEST | 95 | - | - | 95 |
| **TOTAL:** | **851,348** | **-** | **1,649** | **852,997** |

### INCOME AND EXPENSES for period 01.01. – 30.09.2019

In thousand RSD

| Subsidiaries | Interest income | Fee and commission income and other income | Interest expenses | Fee and commission expenses | Net income / expenses |
|---|---|---|---|---|---|
| 1. Kom.banka AD Podgorica | 45 | 4,160 | (1,757) | (100) | 2,348 |
| 2. Kom. Banka AD Banja Luka | 1,561 | 3,398 | - | (263) | 4,696 |
| 3. Kombank INVEST | - | 1,397 | - | - | 1,397 |
| **TOTAL:** | **1,606** | **8,955** | **(1,757)** | **(363)** | **8,441** |

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange losses in amount of RSD 13,456 thousand.

## 4. B. Balance as of 31.12.2018

### Balance as at 31.12.2018

### RECEIVABLES

In thousand RSD

| Subsidiaries | Placements 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. – 30.09.2018

In thousand RSD

| Subsidiaries | Interest income | Fee and commission income | Interest expenses | Fee and commission expenses | Net income / expenses |
|---|---|---|---|---|---|
| 1. Kom.banka AD Podgorica | 54 | 2,136 | - | (1) | 2,189 |
| 2. Kom. Banka AD Banja Luka | 2,806 | 3,383 | - | (792) | 5,397 |
| 3. Kombank INVEST | - | 938 | - | - | 938 |
| **TOTAL:** | **2,860** | **6,457** | **-** | **(793)** | **8,524** |

Based on transactions with subsidiaries, Komercijalna Banka AD Beograd recorded net foreign exchange losses in amount of RSD 11,543 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 appetite framework and risk appetite statement, 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 risk appetite framework, 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.

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

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

- when the financial 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:

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

- 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 September 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

| | 30.09.2019. | | 31.12.2018 | |
|---|---|---|---|---|
| | Gross | Net | Gross | Net |
| **I. Assets** | **444,228,028** | **419,908,961** | **427,668,873** | **401,165,980** |
| Cash and cash funds held with the central bank | 65,844,960 | 65,844,960 | 63,595,710 | 63,595,710 |
| Loans and receivables due from banks and other financial institutions | 21,748,578 | 21,517,704 | 18,705,766 | 18,477,729 |
| Loans and receivables due from customers | 188,799,295 | 176,873,009 | 181,694,980 | 167,545,674 |
| Financial assets | 134,318,549 | 134,317,485 | 133,183,262 | 133,181,667 |
| Other assets | 9,428,133 | 7,270,838 | 8,657,056 | 6,612,268 |
| Non-montary assets | 24,088,513 | 14,084,966 | 21,832,099 | 11,752,932 |
| **II. Off-Balance Sheet Items** | **51,145,203** | **50,952,109** | **42,261,680** | **41,986,725** |
| Payment guarantees | 4,049,449 | 4,018,090 | 3,107,502 | 3,037,138 |
| Performance bonds | 3,766,422 | 3,738,884 | 3,004,569 | 2,962,498 |
| Irrevocable commitments | 42,948,531 | 42,839,967 | 35,783,262 | 35,646,780 |
| Other items | 380,799 | 355,168 | 366,347 | 340,309 |
| **Total (I+II)** | **495,373,230** | **470,861,070** | **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*

000 RSD

| 30.09.2019. | Stage 1 | Stage 2 | Stage 3 | Total | Impairment of Stage 1 | Impairment of Stage 2 | Impairment of Stage 3 | Total impairment | Net |
|---|---|---|---|---|---|---|---|---|---|
| Housing Loans | 38,735,463 | 603,213 | 1,147,204 | 40,485,880 | 21,901 | 14,842 | 528,96 | 565,703 | 39,920,177 |
| Cash Loans | 33,844,598 | 400,338 | 252,86 | 34,497,796 | 113,177 | 18,982 | 163,682 | 295,842 | 34,201,955 |
| Agricultural Loans | 9,043,443 | 130,556 | 262,978 | 9,436,977 | 66,709 | 9,024 | 134,102 | 209,835 | 9,227,142 |
| Oher Loans | 5,018,310 | 52,471 | 164,853 | 5,235,633 | 31,866 | 1,474 | 155,134 | 188,474 | 5,047,159 |
| Micro business | 8,765,577 | 141,857 | 627,246 | 9,534,679 | 126,822 | 4,482 | 336,972 | 468,277 | 9,066,403 |
| **Total Retail** | **95,407,390** | **1,328,434** | **2,455,141** | **99,190,966** | **360,474** | **48,805** | **1,318,850** | **1,728,130** | **97,462,836** |
| Large corporate clients | 31,735,043 | 1,174,258 | 7,127,141 | 40,036,442 | 178,222 | 19,47 | 3,733,062 | 3,930,754 | 36,105,687 |
| Middle corporate clients | 8,211,066 | 155,884 | 1,756,910 | 10,123,860 | 57,765 | 4,94 | 1,260,869 | 1,323,574 | 8,800,285 |
| Small corporate clients | 3,516,142 | 95,884 | 1,144,997 | 4,757,022 | 28,564 | 1,186 | 600,888 | 630,638 | 4,126,385 |
| State owned clients | 19,268,587 | 303,826 | 244,423 | 19,816,836 | 63,131 | 79 | 132,577 | 195,787 | 19,621,049 |
| Other | 10,601,623 | - | 4,272,547 | 14,874,170 | 179,079 | - | 3,938,324 | 4,117,403 | 10,756,767 |
| **Total Corporate** | **73,332,460** | **1,729,852** | **14,546,017** | **89,608,329** | **506,761** | **25,675** | **9,665,720** | **10,198,156** | **79,410,173** |
| **Total** | **168,739,850** | **3,058,286** | **17,001,158** | **188,799,295** | **867,236** | **74,48** | **10,984,570** | **11,926,286** | **176,873,009** |
| **Due from Banks** | **21,529,028** | **-** | **219,55** | **21,748,578** | **11,324** | **-** | **219,55** | **230,874** | **21,517,704** |

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| 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 | 289,4 | 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 | 211,59 | 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 | 503,85 | 13,625,135 | 86,779 | 4,87 | 139,22 | 230,869 | 13,394,267 |
| Other | 11,788,352 | - | 1,405,537 | 13,193,890 | 190,8 | - | 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

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| 30.09.2019. | 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** | **99.190.966** | **1.728.130** | **2.455.141** | **625.775** | **1.318.850** | **2,48%** | **2.134.638** |
| Housing Loans | 40.485.880 | 565.703 | 1.147.204 | 229.670 | 528.960 | 2,83% | 1.138.235 |
| Cash Loans | 34.497.796 | 295.842 | 252.860 | 13.878 | 163.682 | 0,73% | 130.583 |
| Agricultural Loans | 9.436.977 | 209.835 | 262.978 | 27.371 | 134.102 | 2,79% | 237.310 |
| Oher Loans | 5.235.633 | 188.474 | 164.853 | - | 155.134 | 3,15% | 1.271 |
| Micro business | 9.534.679 | 468.277 | 627.246 | 354.857 | 336.972 | 6,58% | 627.239 |
| **Corporate** | **89.608.329** | **10.198.156** | **14.546.017** | **7.737.631** | **9.665.720** | **16,23%** | **12.838.370** |
| Agricultural Loans | 3.957.370 | 67.279 | 59.140 | - | 54.103 | 1,49% | 59.308 |
| Manufacturing Industry | 13.321.928 | 1.874.171 | 3.654.899 | 3.552.627 | 1.801.105 | 27,44% | 3.654.899 |
| Electricity | 89.748 | 1.692 | - | - | - | - | - |
| Construction Loans | 9.210.292 | 258.999 | 664.491 | 11.501 | 237.776 | 7,21% | 665.523 |
| Wholesale and Retal | 23.972.186 | 738.423 | 1.688.848 | 1.457.968 | 589.188 | 7,05% | 1.682.423 |
| Services Loans | 10.469.849 | 1.233.742 | 1.551.388 | 1.544.004 | 1.211.624 | 14,82% | 1.551.176 |
| Real Estate Loans | 5.172.030 | 780.403 | 1.301.429 | 959.229 | 738.065 | 25,16% | 1.302.336 |
| Other | 23.414.926 | 5.243.446 | 5.625.821 | 212.303 | 5.033.858 | 24,03% | 3.922.705 |
| **Total** | **188.799.295** | **11.926.286** | **17.001.158** | **8.363.407** | **10.984.570** | **9,00%** | **14.973.009** |
| **Due from Banks** | **21.748.578** | **230.874** | **219.550** | **-** | **219.550** | **1,01%** | **-** |

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 | 114,45 | 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 | 729,5 | 1,323,324 | 983,04 | 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

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| | 30.09.2019. | | | | 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 | 39,144,233 | 194,442 | 39,338,676 | 39,100,181 | 37,897,797 | 154,193 | 38,051,990 | 37,867,041 |
| Cash Loans | 34,025,087 | 219,849 | 34,244,937 | 11,111,266 | 30,006,894 | 321,308 | 30,328,202 | 6,122,364 |
| Agricultural Loans | 9,133,804 | 40,195 | 9,173,999 | 7,502,041 | 8,419,685 | 29,361 | 8,449,046 | 6,617,026 |
| Other | 5,040,842 | 29,939 | 5,070,780 | 104,905 | 5,211,496 | 37,842 | 5,249,338 | 91,821 |
| Micro Busines | 8,436,730 | 470,704 | 8,907,434 | 8,894,498 | 8,414,374 | 395,639 | 8,810,013 | 8,804,246 |
| **Total Retail** | **95,780,696** | **955,129** | **96,735,825** | **66,712,890** | **89,950,246** | **938,343** | **90,888,589** | **59,502,500** |
| Large corporate clients | 28,907,506 | 4,001,795 | 32,909,300 | 32,909,414 | 30,369,732 | 5,242,708 | 35,612,440 | 32,707,216 |
| Middle corporate clients | 8,251,224 | 115,726 | 8,366,950 | 8,365,140 | 7,100,191 | 107,11 | 7,207,301 | 7,044,748 |
| Small corporate clients | 3,560,568 | 51,457 | 3,612,026 | 3,611,561 | 3,521,734 | 58,329 | 3,580,063 | 3,632,286 |
| State owned clients | 14,524,568 | 5,048,077 | 19,572,645 | 19,747,621 | 10,926,175 | 2,195,210 | 13,121,386 | 10,060,358 |
| Other | 5,041,897 | 5,559,493 | 10,601,391 | 8,026,028 | 11,788,160 | 92 | 11,788,252 | 8,742,174 |
| **Total Corporate** | **60,285,764** | **14,776,548** | **75,062,312** | **72,659,765** | **63,705,993** | **7,603,449** | **71,309,442** | **62,186,782** |
| **Total** | **156,066,459** | **15,731,677** | **171,798,137** | **139,372,655** | **153,656,238** | **8,541,792** | **162,198,031** | **121,689,281** |
| **Due from Banks** | **21,529,028** | **-** | **21,529,028** | **-** | **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 | |
|---|---|---|---|---|---|---|
| | **30.09.2019** | **31.12.2018** | **30.09.2019** | **31.12.2018** | **30.09.2019** | **31.12.2018** |
| As at 30th | 4.41 | 3.86 | 4.19 | 3.56 | 438% | 395% |
| Average for the period | 4.28 | 4.38 | 3.99 | 4.10 | 440% | 444% |
| Maximum for the period | 4.75 | 4.92 | 4.43 | 4.68 | 495% | 495% |
| Minimum for the period | 3.95 | 3.19 | 3.58 | 2.94 | 391% | 388% |

During the first three quarters 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 | 30.09.2019. | 31.12.2018. |
|---|---|---|---|
| GAP up to 1 month / Total assets | Max (10%) | (0.10%) | 1.57% |
| Cumulative GAP up to 3 months / Total assets | Max (20%) | (1.61%) | 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** | **30.09.2019** | **31.12.2018** |
|---|---|---|---|
| Relative GAP | Max 15% | 1.38% | 2.01% |
| Mismatch ratio | 0.75 – 1.25 | 1.02 | 1.02 |

During the first three quarters 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:

| | 30.09.2019 | 31.12.2018 |
|---|---|---|
| As at | 4.00% | 4.30% |
| Average for the year | 4.82% | 4.77% |
| Maximum for the year | 5.56% | 5.72% |
| Minimum for the year | 4.00% | 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.

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 September 30st:**

| | 30.09.2019 | 31.12.2018 |
|---|---|---|
| Total currency risk balance | 964,717 | 1,064,940 |
| Currency risk ratio | 1.53% | 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** | | **(000) RSD** |
|---|---|---|
| | **30.09.2019.** | **31.12.2018.** |
| Tier 1 (T1) Capital | 64,572,512 | 58,512,822 |
| Common Equity Tier 1 (CET1) Capital | 64,199,002 | 58,139,312 |
| Additional Tier 1 (AT1) Capital | 373,510 | 373,510 |
| Tier 2 (T2) Capital | - | - |
| Deductible items | (1,566,372) | (1,473,139) |
| **Capital** | **63,006,140** | **57,039,683** |
| Credit risk-weighted assets | 168,350,987 | 161,828,271 |
| Operational risk exposure | 32,768,254 | 31,379,213 |
| Foreign currency risk exposure | 3,036,512 | 2,281,232 |
| **Capital adequacy ratio (min. 14.22%)** | **30.86%** | **29.18%** |
| **Share capital adequacy ratio (min. 12.22%)** | **30.86%** | **29.18%** |
| **Basic share capital adequacy ratio (min. 10.72%)** | **30.68%** | **28.99%** |

During the third 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 Q3 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

There were no significant events after the date of reporting period, which would require disclosure in the Notes with Financial Statements as of September 30, 2019.

## 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 September 2019 and 31 December 2018 for certain main currencies are as follows:

| Currencies | Official NBS exchange rate | |
|---|---|---|
| | 2019. | 2018. |
| USD | 107.4299 | 103.3893 |
| EUR | 117.5283 | 118.1946 |
| CHF | 108.3809 | 104.9779 |

In Belgrade,

On 12 November 2019

Persons responsible for preparation the financial statements

# KOMERCIJALNA BANKA AD BEOGRAD

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Activity code: 6419
Business Registers Agency: 10156/2005
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## STATEMENT

In our opinion, quarterly financial statements for the period 01.01.2019 to 30.09.2019. 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 | Miroslav Perić, PhD |
| Executive Director for Finance and Accounting | Member of the Executive Board |

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД * БЕОГРАД 4

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# STATEMENT

Individual financial statements of Komercijalna banka AD Beograd for the period 01.01.2019. until 30.09.2019. 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
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